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# West Europe Report

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5 March 1984

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SECURITY POLICE MOST CONCERNED WITH TERROR FROM RIGHT WING

Stockholm SVENSKA DAGBLADET in Swedish 23 Jan 84 p 6

[Article by Sune Olofson]

[Text] SAPO [Swedish Security Police] places top priority on combatting espionage and illegal intelligence activity, but recently it has done a lot of work on right-wing extremist organizations.

That is what National Police Chief Holger Romander in a SVENSKA DAGBLADET interview on the activity and circumstances of the security police.

"There is every reason to keep an eye on neonazism. It has close contacts with more active sister organizations abroad. The developments in West Germany concern us. We cannot rule out the possibility that acts of violence are being prepared," said Holger Romander.

"The neonazi and right-wing extremist groups in Sweden are small, apparently insignificant, but more attention is currently being given in Sweden to supervising them than to the left-wing extremist movements."

Bergling Case Turning Point for SAPO

But the tactics of both extremist movements are the same, in Romander's view.

"They try to use discontent with certain things to gain attention and publicity for their own doctrine. Fights and riots are also typical for them. It is especially disturbing that they try to a large extent to make use of groups of unsuspecting young people for their own ends."

It is SAPO's task to detect, prevent and combat crimes against national security. The major efforts are made against espionage, so-called counter-espionage, subversion (subversive activities) and terrorism.

In recent years SAPO has been successful in carrying out its overall task.

"The security division's most important task is to prevent crimes against national security at as early a stage as possible. This involves preventive work to a large extent," Romander said.

Even before Soviet spy Stig Bergling was unveiled in March 1979--Bergling worked with SAPO for a while--Holger Romander took the initiative for a reorganization of the security branch, headed by division chief Sven-Ake Hjalmoth.

"The unveiling of Bergling was a turning point. I can state with satisfaction that the reorganization resulted in a more effective security activity. Various disruptions that had occurred in the past ceased, the branch became tight and the opportunities for counterespionage improved considerably."

#### Loose Talk Too Prevalent

The most important change, according to Romander, was the decision to allow groups within the division to work in isolation from each other.

"It was not professional to let far too many people in the division obtain detailed information about ongoing investigations and projects, as used to be the case. Loose talk was much too prevalent."

Improvements were also made within the organization. Functions were streamlined, a new bureau took over administration, files and data.

"The combination of older experienced men and younger, well-educated and modern-thinking security men has been successful. We try to identify discontent and possible unrest in the division as early as possible and we have a good personnel policy. In addition the police profession has used a selection process in hiring that has proved to work well. Prospective security policemen can be on trial for 12 months, which is now quite uncommon."

Holger Romander said the East bloc is most active when it comes to espionage and illegal intelligence activity.

"Experience shows this. The fact that we have not caught any western spies must be due to less extensive espionage activity by the West in comparison with the East."

#### Espionage Aimed at Total Defense

When SVENSKA DAGBLADET asked if this might also be because Sweden exchanges more information with the West, Holger Romander replied:

"I don't think so. Most of what the West might be interested in can be obtained through open channels."

Romander said that the nature of espionage has changed over the years while at the same time its overall scope has expanded greatly.

"Espionage is no longer aimed solely at traditional defense secrets. A lot of it is now directed at technology, economics and politics. Therefore it was necessary and correct to change the laws a few years ago, so that today the crime of espionage covers total defense in general. For example, we can note that in this country the East bloc is primarily interested in advanced technology, especially American technology."

How does SAPO approach its assignments, with which the general public is often completely unfamiliar?

"Now it is more a question of analysis and contact activity. If one wants to combat terrorism, for instance, one must acquire familiarity with the groups that might carry out that type of activity, their movements and their activities.

"This does not always have to be done secretly. Our employees in the security division often present themselves as security people. In addition, there are various types of investigation."

#### Putting Together the Pieces of the Puzzle

"The somewhat legendary reconnaissance and surveillance out in the field is limited to more definite efforts in various stages of an operation. The starting point, in other words the idea to launch various operations, often results these days from the gathering of information from a broad contact network which can also go across national boundaries. Today SAPO has a good contact network," Holger Romander said.

The information converges on the various SAPO departments, the pieces of the puzzle are put together and the work of analysis begins. SAPO leaders meet daily and surveillance results, tips and analyses are reported by department chiefs and various specialists.

Holger Romander stressed the cooperation with the defense security division, UD [Foreign Ministry] and FMV, the Defense Materiel Command.

"We also put large resources into developing contacts in the business sector. If you want to stop the illegal gathering of information about the JAS [fighter-bomber-reconnaissance plane] project, for example, you have to instruct large and small firms in security awareness. That is why we travel around and hold courses and conferences."

#### Businesses Need Security Protection

"I cannot refrain from stressing how important it is for business management to be aware of the importance of a proper security protection system.

"There has been a deplorable tendency in the business sector to ignore these things. But now we are able to note a significant change."

SAPO is the extended arm of the government to a considerable extent. Once a month Holger Romander, Sven-Ake Hjalmoth, Justice Minister Sten Wickbom and Undersecretary Ulf Larsson hold a meeting.

"At that time we inform the government of the investigations we are conducting with regard to individuals and circumstances."

For some time now, SAPO's policy has been to make it clear as early as possible that Sweden will not accept any form of espionage.

"This is important so that important social functions and interests are not harmed. This policy change was not based on new directives from the government but was something the police came up with themselves," Romander said.

Romander explained that it is the Foreign Ministry that decides that a diplomat is persona non grata in this country, for instance. This is based on information from the security division.

"We just report people's activities and contacts and then it is up to the government to decide which measures are appropriate."

Sven-Ake Hjalmoth also meets cabinet secretary Pierre Schori, defense chief Bror Stefenson and people from the Defense and Justice Ministries on a monthly basis. There security and intelligence issues are weighed together.

#### Conditions Not Right for Swedish Revolution

Today the conditions are not right for a revolution against the Swedish democratic form of government, in Holger Romander's opinion.

"But to keep from being taken by surprise, we keep a close eye on groups that could constitute a threat in any way. The same thing applies to terrorism. We have been spared from terrorist groups for some time. But we are keeping a close eye on terrorism's development and direction, both abroad and here at home."

As an example of a dangerous terrorist group today Romander mentioned the Armenian Asala.

"To some extent the reason why they have not yet been active in Sweden is that the security division has made a good energetic effort."

To SVENSKA DAGBLADET's final question as to when SAPO will seize a Stig Wennerstrom next, Holger Romander replied:

"As soon as possible."

## Successes in Past 5 Years

The Swedish security police have had successes in recent years. Here are some results of SAPO's work:

February 1979: Commissioner Hans Molin seized. Sentenced to 3 years in jail for espionage on behalf of Iraq and the Soviet Union.

March 1979: Soviet spy Stig Bergling unveiled. Sentenced to life imprisonment. SAPO reorganized after his detection.

August 1979: Polish diplomats Jerzy Krawczyk and Jan Strzelichowski expelled from Sweden for industrial espionage.

November 1980: Some 20 Polish producers of forged paintings seized in succession. Suspected of espionage. Several expelled from the country.

January 1980: Two Polish women unveiled as refugee spies for the Polish consulate in Malmo. One of them sentenced to jail.

February 1980: Polish Consul Stanislaw Kwiecinski of Malmo expelled for spying on refugees.

April 1980: Six Palestinians in Uppsala expelled from the country. Refugee espionage and preparing terrorist actions for PFLP-GC [Popular Front for the Liberation of Palestine group].

August 1981: Peace researcher Owen Wilkes arrested for espionage. Given a suspended sentence and expelled for 10 years.

September 1981: Two Polish forgers of paintings seized in Hassleholm. Detained for espionage. Expelled from the country.

March 1982: Soviet APN chief Nikolay Neylands refused permission to enter the country on SAPO's recommendation. Accused of having recruited so-called influence agents.

April 1982: Soviet Vice Consul Alpert Lepa told to leave the country as a result of espionage among Baltic refugees.

December 1982: Soviet Consul Yuriy Averine and assistant military attache Pyotr Shirokiy declared persona non grata. Industrial espionage. Soviet citizen Anatoly Kotyev also expelled.

May 1983: Lieutenant Colonel Bertil Stroberg seized and charged with major espionage. Sentenced to imprisonment and expulsion.

June 1983: Two Iraqi citizens in Uppsala seized for refugee espionage. Sentenced to imprisonment and expulsion.



December 1983: Soviet diplomats Vyacheslav Timofeyev and Grigory Rapota of the Stockholm Embassy and a Soviet citizen attached to the trade delegation asked to leave the country. They engaged in industrial and political espionage.

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CSO: 3650/113

## JOSCHKA FISCHER EMERGES AS PRAGMATIC GREEN PARTY LEADER

Hamburg DIE ZEIT in German 13 Jan 84 p 2

[Article by Michael Sontheimer: "Cynical, Blunt and Indispensable--Joschka Fischer, Parliamentary Manager Fighting for a Realpolitik"]

[Excerpt] The scene of the first 17 years of this story was Stuttgart. As the child of a lower middle class family (both his father and grandfather were butchers), he did not exactly have an easy time at secondary school. Nor did he graduate from it. "I flipped out with Bob Dylan at that time," he recounts with a tone of pride. "'On the road.' I thought: What he can do I can do too." He became a "dropout" 10 years before that concept became fashionable. In his first try he got as far as Hamburg; at that time he was nabbed by the police and taken back home. In his second try he already got as far as Kuwait. Back home again, he worked temporarily at the Labor Office and then briefly tried his hand at learning to become a photographer.

After he had married the love of his youth in the Scottish marriage paradise Gretna Green because he was underage, the two were drawn to the city which after Beling was the most important site of the student movement--Frankfurt--and this is where he stayed for the next 17 years. Though never having registered at the Johann Wolfgang von Goethe University, Moschke Fischer attended lectures given there by Adorno, Habermas and Megt and, while doing so, found that they enabled him to accomplish something unusual, namely to form an idea of what German fascism was all about. He read Marx and Mao. Altogether, his thirst for knowledge was great. "I studied like mad. 'Die Phaenomenologie des Geistes' [The Phenomenology of the Spirit] by Hegel, for example. After two-thirds of it, I started again from the beginning because I had not understood any of it."

In 1971 he went with about a hundred activists of the "revolutionary struggle" to Opel in Ruesselsheim in order to incite the allegedly revolutionary individuals there but was dismissed soon thereafter since he had called for a strike at a works assembly. At that time he was already in the center of the extreme-left Frankfurt scene, which in the years to come was to gain a certain notoriety under the name of "Spontis"--a loose conspirative community ranging from the left fringe of the SPD to the right fringe of the RAF [Red Army Faction].



He became one of the Sponti spokesmen--the "bad one" or "war chief," as, with a contented smile, he describes his own role, and antipode of the "good" Dany Cohn-Bendit.

In assemblies he advocated militancy in the street and in the mid-seventies also organized such militancy in the struggle over occupied housing of the Frankfurt Westend. He took part in the "Putzgruppen" [Cleanup Squads], which in fact trained so successfully that none of their members were ever nabbed. How did they hit on such notions? "At some point or other, we simply were tired of constantly being beaten up by the police. Easter of '68, after the attack on Dutschke--I won't forget that as long as I live--my God, what a thrashing I got there!"

He pleaded for the right of extraparliamentary movements to military resistance but at the same time strongly criticized the RAF. And it was the RAF which finally triggered in him what he calls a "loss of illusions" or "erosion of illusions." "During the '77 German autumn, the game suddenly became serious. An acquaintance of mine had been sentenced to several months imprisonment without parole because he had justified the abduction of Schleyer. So I once more posed very sharply the question of armed struggle: Either the guerrillas are right, in which case you have to do it too, or it is all madness."

Opting for the second possibility, Joschka Fischer began to read Solzhenitsyn and Glucksmann and to confront the abysses of Marxist practice. "Looking back, I have to say that for me Marx and his proletarian revolution served as substitute for religion for several years," he confessed in 1979 in the Frankfurt town paper PFLASTERSTRAND, admitting at the same time that he was at a loss as to what could be done politically.

His being at a loss passed. His loss of illusions, which is something still ahead for many a Green parliamentarian, explains why Joschka Fischer became one of the most articulate fighters for a Green realpolitik. If the Hessian party at its party congress this weekend sees its way clear for a Red-Green accommodation in Wiesbaden, his concept will have won out decisively against the fundamental oppositionists who until recently predominated among the Hessians Greens. He says that for the following reasons his party, though it is really too early, has no choice but to lose its innocence. "The Greens are competing with an SPD which at the federal level is playing the role of opposition. In order to obtain a majority, the SPD must go all out to swallow the new social movements both as far as personnel and as far as issues are concerned--and the social movements are our base. The Greens, on the other hand, can survive only if they grow. And they will not grow if they merely preach in Parliament that it is 5 minutes to 12 but refuse to assume responsibility and to do something to stop the clock or turn it back." A glass of red wine in his hand and a cigar in his mouth, he says jokingly: "The Greens are in their Kautskyan phase, and I am playing the role of Bernstein."

As far as most members of his party in Parliament and particularly the "fundamentalos" are concerned, Fischer displays a combination of arrogance, cynicism and despair. Replying to the question as to what the Greens have in mind with

NATO, he says smugly that all one would have to do is to make his party colleague in Parliament, Roland Vogt, supreme commander, and nothing would work in Brussels any more for sure. Fischer often talks about effectiveness, insisting that to be an Alternative and support democracy at the base does not have to mean being disorganized. Together with Otto Schily, he has maneuvered himself into the role of a taskmaster of his party in Parliament who tries to prevent sessions of the parliamentary party losing themselves in chaos in the style of residential community discussions or therapy workshops.

He complains that "most Greens are at the level of the Alternative culture at which we were in Frankfurt in 1975" and personally cultivates a cool and statesmanlike exterior. It stands him in good stead when in the Aeltestenrat [committee assisting the speaker] of the Bundestag he negotiations about the list of speakers and duration of speeches and in the process covertly chisels away on the profile of his parliamentary party.

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## GROWING DIVERGENCE AMONG PARTIES ON FOREIGN POLICY VIEWED

Stockholm SVENSKA DAGBLADET in Swedish 30 Jan 84 p 2

[Editorial: "Old Maid"]

[Text] There is a flaw in our foreign and security policy debate system. In brief it consists of the fact that the country's politicians try to maintain the appearance of unity long after any agreement has disappeared. Above all the disagreement is caused by the question of policy means. The policy of neutrality remains, but the means of achieving it are disputed.

The big parties differ on defense policy. The gap that began to develop back in the early 1970's has now widened.

In the area of aid policy--a segment of foreign policy on which the Social Democrats place special emphasis--there were tangible differences as far back as the middle of the 1970's. These have been further underlined in recent days. Even the Liberal Party is now abandoning its old "Social Democratic" aid policy.

There are also considerable differences in direct foreign policy. Recently these have been primarily expressed in the view of the Soviet Union, an aspect of foreign policy that is of fundamental importance for defense policy, both directly and indirectly.

The Social Democrats, headed by Olof Palme, rely on a policy of trust. Submarine violations will come to an end as a result of diplomatic actions. The nonsocialist parties, led by the Conservatives, obviously place little trust in low-key diplomacy. According to the Conservatives, only a stronger defense and harsh condemnations of the Soviet Union in international forums can influence that nation.

The differences between the Social Democratic and Conservative policies are rooted primarily in differences in their view of the Soviet Union. But of course there are other factors too. One of them is the political network on an international basis of which Olof Palme has become a part. The Socialist International and the Palme Commission provide Olof Palme and

thus the other Social Democrats as well with another political environment to work in in addition to the Swedish arena.

It is totally unreasonable to think that Swedish foreign policy under a Social Democratic government would remain uninfluenced by Olof Palme's international socialist contacts, especially since these contacts are more trusting than those he has with the nonsocialist parties in Sweden.

As always when cooperation falls apart, a period of uncertainty follows. Everyone tries to put the blame on the others. The pattern is well-known from government dissolutions. We are seeing the same thing now in Swedish foreign and security policy.

A whole year ago, Gunnar Heckschler analyzed foreign policy development from unity to partisanship in SVENSK TIDSKRIFT (1983, No 3). Heckscher notes laconically that "socialist foreign policy cannot be reconciled with unity." This does not mean that he denies the Social Democrats the right to pursue a socialist foreign policy: "It may seem reasonable that a Social Democratic government pursues a socialist policy also with respect to the outside world. But it is just as reasonable that those who oppose socialism in Sweden will not support it in other countries either," Gunnar Heckscher wrote.

In the latest issue of TIDEN, the periodical makes a general attack on Conservative foreign policy. The leading theme in the criticism is that the Conservatives only oppose things on a superficial basis, while there are really no differences, according to TIDEN. The periodical points to the relatively broad agreement that prevailed when Riksdag discussed foreign policy.

But TIDEN believes that there are Conservative "activists" who want to disrupt this unity. TIDEN thus makes one suspect that it fails to see that the parties have already gone their separate ways. TIDEN should look for the activists and the disagreement in the ranks of its own party rather than among the Conservatives.

The Conservatives' problem is that they do not want to be caught holding a foreign policy Old Maid card; they do not want to appear to be the party that broke up the unanimity. This fear is not diminished by the fact that Olof Palme constantly--in contrast to TIDEN--exaggerates the differences. The prime minister tries to present the fact that the Social Democrats pursue a socialist foreign policy as if the Conservatives are bent on differing on the point where unity does exist, namely the policy of neutrality.

That is not where the difference lies. It lies in the question of means. And in that respect Gunnar Heckscher is right. It is legitimate for the Social Democrats to pursue a socialist policy and the nonsocialist parties have just as much right to disagree with this policy.

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CSO: 3650/113

## KEY FIGURES IN LAJES AIR BASE NEGOTIATIONS INTERVIEWED

Admiral Almeida d'Eca

Lisbon DIARIO DE NOTICIAS in Portuguese 20 Dec 83 p 4

[Interview with Admiral Almeida d'Eca, of the Armed Forces General Staff [EMGFA], Portuguese representative in technical and military negotiations with the United States regarding Lajes Air Base, Azores, by Oscar Mascarenhas: "New Agreement on Lajes Base Not Just Another Pat on Back"; date and place of interview not given]

[Text] The military delegation advocated economic aid of basic infrastructure;

Military and nonmilitary aid come through different channels and cannot be easily transferred;

The negotiations were long and hard, although always in a spirit of understanding;

Facilities were enlarged in both qualitative and quantitative terms;

Use of the Lajes Air Base outside of the NATO framework will be subject to case-by-case authorization by the Portuguese government;

There was agreement between the ministers of foreign affairs and of national defense;

The chief of the American delegation defended the interests not only of his country but also of the Alliance as a whole;

Storage and maintenance of conventional non-nuclear equipment only is authorized;

Portuguese authorities may visit the American facilities to verify nonuse of nuclear weapons;

Equipment involves frigates, a flight of fighter planes, a mechanized brigade and a light airborne brigade.

Two hundred paragraphs of a document signed by an admiral of the Armed Forces General Staff of Portugal and a captain of the United States Department of Defense are a sign of the beginning of a new era in the relationship between the two countries as regards use of the Lajes Air Base: the era of the "pat on the back" as payment for the substantial concession of military facilities is over. That is the conviction of Adm Vicente Almeida d'Eca, 65, expressed in an interview he granted to DIARIO DE NOTICIAS regarding the negotiations in which he played a prominent role.

In a reversal of the idea of complementarity expressed by Clausewitz, in the case of Almeida d'Eca, after 25 April [1974] the diplomat took the place of the warrior, to the acknowledged advantage of the Portuguese state: as high commissioner in Cape Verde, his native land, he played a moderating role in the contention regarding decolonization that is still going on; moreover, for the last 6 years, his specialty has been negotiating the foreign military presence on Portuguese territory. Nor does he seem to have come to the end of this career. When we asked him whether he would be willing to serve in any negotiations for granting facilities in Beja to the United States, he brought up only the (minor) obstacle of his age and the need to "analyze the possibilities carefully." For those who "know how to read," he has written an unreserved "yes."

As representative of the Armed Forces General Staff and the Ministry of National Defense in preparing the technical agreement and the military aspects of the exchange of notes that took place on 13 December, Almeida d'Eca has participated since 1981 in the preparatory work and the long and hard discussions--as he himself characterized them--that took place.

The negotiations began last 24 January and the delegations met six times, for a total of 57 working days. The final phase was the "big push": between 6 October and 12 December the work filled the better part of 10 to 12 hours for 38 days. It ended at 2000 hours on 12 December, the result of a process that began in 1980, when the United States submitted its new suggestions about the Azores, with a request for extension of use of the Lajes base on additional terms.

A first informal meeting was held in July 1981 and the two delegations made their formal presentations in December of that year.

Three topics guided the discussions: continued U.S. presence in Lajes, granted by the 1951 Defense Agreement and successively renewed through 1979; revision of the working agreement of 1976; and revision of the technical agreement of 1957.

The technical agreement, Almeida d'Eca explained to us, emanated from the Defense Agreement and is a document that regulates the terms on which the U.S. forces may use the Lajes base and other



facilities in the Azores. In his opinion, however, the document that has been in force, dated 1957, is quite outdated and does not address our interests appropriately. That is the reason for its revision. He said the broad range of subjects it covers and the large number of entities concerned make it a very complex document.

#### Funding

A glance at the range of problems addressed is enough to give an idea of the difficulties: Definition of the facilities granted and the conditions of their use; authority and functional relations; status of American forces; responsibility for defense and for security; responsibility for construction and for operations; property rights, aspects of criminal and civil jurisdiction, as well as tax and customs arrangements. It would not be practical in this interview to touch on all these problems. Not even if our interviewee were willing; he consented to discuss only the military aspects, including a few closely related subjects, in order to stay within the bounds of reality.

DN [DIARIO DE NOTICIAS]: In a tone that did not hide a certain criticism, a massive appropriation of funds for the armed forces has been spoken of as the principal result of the Lajes agreement, with other needs receiving less priority. Do you care to comment on that?

AE [Almeida d'Eca]: The funds appropriated as military and nonmilitary aid related to continued U.S. presence in Lajes were clearly announced by the foreign relations minister at the note-exchange ceremony. As closely as can be estimated, throughout the 7 years of the agreement, nonmilitary aid comprises a grant of \$320 million (41.6 million contos) and credits of \$75 million (9.75 million contos). Military aid comprises a grant of \$517.5 million (67.3 million contos) and credits of \$412 million (53.6 million contos). These figures, of course, are a projection of the commitments made so far and hence subject, as time goes by, to change, which we hope will be favorable. In answer to your specific question, I should like to emphasize that the military delegation always stated clearly that it felt aid should not apply solely to military aspects, but should have an economic nature with potential impact on basic infrastructure and be given in such a way as to improve the Portuguese economy, as an essential factor in strengthening our defense capabilities.

#### Equipment Preferred

DN: However, a transaction negotiated on the basis of funds leaves the user of aid a "hostage" to the prices that the other party establishes...

AE: I should like to make it clear that we always wanted the transaction to be made in terms of equipment. However, the United States contended that it could not do business on these terms and could only grant military aid in money terms, according to U.S. law, in the form of either grants or loans.

DN: And what did the Portuguese delegation have to say to that?

AE: We said that, in that case, we would have to have a validated list of what we needed so that authorities could decide what we would receive in terms of a given amount of financial assistance. We also asked for special terms, similar to those granted other countries. We contended, moreover, that in formulating an agreement the following issues should be addressed: recognition of our needs for reequipping militarily; commitment that we would be helped; consent to establishment of an intermediate-term reequipment program for the armed forces; stipulation of annual programs based upon the previously-established intermediate program; and enumeration of the forms that aid could take.

#### Different Channels

DN: Going back to the original question, the question remains of why U.S. aid could not be given in a different way.

AE: Regardless of the justification for military assistance, it must be borne in mind that military aid and nonmilitary aid come through different channels within the U.S. budget and a simple transfusion of funds cannot be made, as would appear possible at first glance.

DN: In what terms was the Portuguese request for military assistance programmed?

AE: I should like to say that this question of military assistance has been studied and discussed in the EMGFA for a long time, in view of our inclusion in the Atlantic Alliance. Based upon these studies, an estimate was made of the minimum forces needed to respond to a possible threat. With these needs in mind, as well as our desire to play a more prominent role in the Alliance, not limiting ourselves solely to granting bases to be used by allied nations, a reequipment program was worked up for the Armed Forces to serve as a basis for negotiation. It dealt with a combination of measures consolidated among the three branches of the armed forces, which was intended to be a balanced whole, within the limits of our ability to operate and maintain, made up of units capable of future expansion.

DN: What about the timing?

AE: This program was stretched out over 1 year plus 5 years, in compliance with NATO standards, and was presented in terms of Portuguese needs that we would like to be studied, in comparison with the needs that had been stated by the United States, in order to arrive at a mutually acceptable solution.

DN: Did you consider the negotiations hard?

AE: The negotiations were really tough, although always in a spirit of understanding and a desire to reach a conclusion.

'Disinterest'

DN: Is it true that the United States will have left the impression of a certain "disinterest" in Lajes, in view of the fact that at the same time it was carrying on negotiations for facilities in Spain and Greece?



AE: Not at the negotiating table exactly, but, let's say, in those hallway conversations that we all have. In any event, we know perfectly well what is the strategic value of the Portuguese positions to which we customarily refer as the "strategic Portuguese triangle": continental Portugal, Azores and Madeira.

DN: Was the United States able to get the enlargement of facilities that it wanted in Terceira?

AE: The Americans wanted not only an expansion of the facilities in the Azores but also a certain number of facilities on the continent. By government decision, the present negotiations have until now been restricted to continuation and enlargement of the facilities in the Azores.

DN: But were more facilities granted in Terceira?

AE: Certainly. Extension of the Lajes agreement--or, more precisely, the renewal of the American presence in the Azores--was done in terms of an enlargement of the facilities, in both quantitative and qualitative terms, which can be considered significant. Nevertheless, it must be borne in mind that the changing technology that has taken place since 1957 has, to some degree, affected the facilities that were granted.

DN: In operations outside of the scope of NATO, such as those involving deployment of the Rapid Defense Force (RDF), did the United States receive blanket authorization or will it be granted on a case-by-case basis?

AE: I can tell you with all clarity that the technical agreement that has just been signed by the chiefs of the two delegations restricts the facilities of a bilateral nature granted to the United States in the Azores solely to the NATO framework. Any and all use beyond the NATO framework will be dealt with on a case-by-case basis by the Portuguese Government.

DN: As in 1982, when the United States wanted to deploy the RDF to Egypt, with a stopover in the Azores?

AE: Exactly as in that case.

DN: You stressed the idea that the agreement has only been initialed. Would you care to explain why?

AE: It can be understood that the fact of the agreement having been initialed by the chiefs of the two delegations indicates that it is ready to be signed. That is not quite so. The fact that it has been initialed means only that an agreement has been reached between governments. From now on, the wording of the texts must be submitted to the responsible authorities, who will think it over, possibly suggesting some change or other, and only after that will the texts become definitive. A comparison will then have to be made between the Portuguese text and the American text, which have equal value, and only after the governments have formally declared them to be exact will the agreement be ready for formal signing. So there is a long road to travel before this can happen, which we hope will be in January of next year.

## Mota Pinto's Intervention

DN: Much has been said about Mota Pinto's last-minute intervention. Can you explain what happened?

AE: I should like to say that, as a matter of fact, the agreement between the delegations was reached, in the same form that it has now, at 8 o'clock in the evening of 12 December. And this agreement was to be the basis for the exchange of notes to proceed the next day. Answering your specific question--which, by the way, is very important and deserves a fairly extensive treatment--I should refer once again to the complexity of the negotiations. As you know, it was not only necessary to harmonize the nation's defense interests but also to reach a basis of understanding with the U.S. delegation, a basis that would defend our interests. The first of these two steps required not only contacts between the military chiefs and the minister of national defense, but also between the latter minister and the minister of foreign affairs and even with the prime minister. In the second step, meetings had to be held between the delegations and within the delegations, at both the technical and the diplomatic level, but also between chiefs of delegations to harmonize certain matters, among which it was necessary to reach a consensus.

DN: Such as...?

AE: Specifically, one of the final issues was the question of establishing property rights. It is a question that could be termed technical, inasmuch as we don't intend to make an issue of the presence of the United States in the Azores. But we wanted it to be quite clear--as is was in Beja, where I also headed the negotiations--what the terms would be, in case the U.S. forces left the Azores, in regard to the various installations in terms of ownership. This was one of the final questions and we reached what I consider a satisfactory agreement.

DN: But that wasn't the issue raised by Mota Pinto...

AE: No. I just reported this problem in reply to the question about what issues had caused the most trouble. The issues that the Ministry of Defense wished to raise are issues related to the agreement itself, mainly in regard to establishing certain principles that it was felt should be included particularly in the exchange of notes to better defend the interests of the military. The issues were resolved: there was an agreement between the two ministries and the final texts safeguard the interests of the military.

DN: Whether the negotiations were easy or difficult, were they ever on the brink of breaking off?

AE: Breaking off, strictly speaking, no. But in many cases situations of deadlock arose and were only overcome due to much persistence and determination. I must say that the chief of the American delegation was of very high caliber, striving not only for the interests of his own country but also for those of the Alliance as a whole. That, in fact, is why we were able to reach an agreement.

## Nuclear Weapons

DN: Was any stipulation made about restricting nuclear weapons and equipment?

AE: This point is clearly covered in the agreement. Authorization is granted for storing and maintaining only equipment of a conventional nature.

DN: What are the means of control?

AE: That is an important question, because it is related to the problem of authority. One of the issues that we contended should be made quite clear was the affirmation that the agreement was made in full respect of national sovereignty and this immediately becomes clear in the issue of authority. It was expressed in the agreement, without any room for doubt, that authority over all facilities is Portuguese and that only the American forces are subordinated to American authority, which naturally exercises control over the facilities it uses. Establishment of standards and rules governing the relationship between the two authorities was particularly stressed. One of the rules established was that the Portuguese authority may visit any number of installations specifically to certify the use of only conventional armament.

#### Materiel

DN: Can you identify what equipment is mentioned as within the scope of military assistance?

AE: At this point, it is not exactly a matter of negotiating equipment related to the program of military aid. This is done through the general staffs, through the appropriate channels that have been established, particularly through periodic meetings among planning divisions of the general staffs, the Armed Forces General Staff and the U.S. Joint Chiefs of Staff. Hence, the agreement is concerned only with generalities. However, I can report that the agreement covers not only a problem that is always in mind, which is the problem of frigates--in regard especially to the Americans--but also certain air capability (a flight of fighter planes) in which the Air Force is particularly interested, as well as the contemplation of certain equipment for a mechanized brigade and for a light brigade that could be airborne.

DN: This whole problem of equipment involves the issues faced by the armed forces since the colonial war: what do the armed forces want, narrow territorial defense or strategic defense in a broader context...

AE: I am not the most appropriate person to deal with that question. But, clearly, everything will be derived from a strategic definition, on the basis of which each of the forces will fulfill the mission established for it. There is a profound change in comparison to what was done during the colonial war. This is one of our present difficulties. We were equipped for a war of that nature and now we have to deal with participating in a completely different theater of operations. And we know perfectly well that Portugal's economic means cannot alone meet these demands.

That is why we advocate that the countries with greater economic capacity should make a considerable contribution in reequipping Portugal's armed forces. We refer especially to the United States and to West Germany, with which we have established agreements for aid and for leasing facilities. But, as I said, I am really not the proper person to answer a question of that nature.

Portuguese Text

DN: But you are certainly the person qualified to answer the following question: Are you satisfied with the agreement at which you arrived or were you at first hoping for something better?

AE: Your question is hard to answer. If you were to ask me that question in regard to the negotiations of the Beja agreement, now that 4 years have passed from the date of that agreement's signing, I should say that yes, I am satisfied. The agreement, in fact, worked out well, and it is only for this reason that I am satisfied. In regard to the present text, which is not yet an agreement, I have the feeling that the delegation made its best effort. I feel that we have arrived at a text that, so far as we know, is capable of satisfying those who, on the spot, will have to carry out the agreement. I believe that from the standpoint of form, according to what I have heard from persons whom I consider qualified to make an analysis, the agreement is well structured. I believe the regional government also found this agreement, in terms of trade-offs, brings a number of benefits that we were trying to achieve. In all honesty, I must tell you that all of our desires are not met, but I believe we arrived at a balanced solution, which must always be arrived at when there is an agreement to be established between two parties.

DN: Then the era of a pat on the back and the lion's share of the payoff going to the United States has come to an end?

AE: Well, I have put in 6 years now negotiating agreements of this type. The first time was the Flores agreement with the French. The second was the Beja agreement with the Germans. In all these negotiations we started with a Portuguese text, which was supported steadfastly and we refused to ever work on any other basis. These Portuguese texts were always carefully worked out and, as usually happens, could not be completely satisfied, but the great majority of essential questions were contemplated therein. So there wasn't any pat on the back. I have the impression that, if anything, it was a hard slap... and not a pat.

Ambassador Calvet de Magalhaes

Lisbon DIARIO DE NOTICIAS in Portuguese 9 Jan 84 p 4

[Interview with Ambassador Calvet de Magalhaes, Portugal's representative in political negotiations with the United States regarding the Lajes Air Base in the Azores, by Simoes Ilharco: "Automatic Assignment of Lajes Base Unthinkable Outside of NATO Scope"; date and place of interview not given]

[Text] "There could never be an automatic assignment of the Lajes Base outside of the scope of NATO," DIARIO DE NOTICIAS was told by ambassador Calvet de Magalhaes, who headed the political negotiations about the agreement signed recently between Portugal and the United States. During the interview he granted us, the ambassador analyzes the whole complex of problems related to the discussions, in which, he tells us, "we got what we wanted."



DIARIO DE NOTICIAS [DN]: Do you think that the facilities granted by Portugal to the United States at the Lajes base indicates an emphasis on the Atlantic Alliance component of our foreign policy?

Calvet de Magalhaes [CM]: I think that in any event this agreement that has been reached definitely represents a new era in our relations with the United States.

DN: Does it also mean that the United States places great importance on the Lisbon-Azores-Madeira geostrategic triangle?

CM: Absolutely. In fact, not only in the wording of the treaty but also during negotiations the Americans always stressed the great strategic importance of the Portuguese positions, not only in Lajes but in all our territory as a whole.

DN: Nevertheless, the United States wanted the facilities granted in Lajes extended to the continent but our country, it is said, did not agree to the wishes of the United States.

CM: No, Portugal did not refuse.

DN: Did not refuse?

CM: This is what happened: The Americans were interested in certain facilities, including continued use of Lajes, because the agreement had expired and had to be renewed; they were also interested in other facilities on the continent.

DN: And we didn't grant them?

CM: We refused to negotiate the whole thing as a package.

DN: Why did we reject comprehensive negotiations?

CM: We contend that the Lajes case is the easiest case for Portuguese and American public opinion to grasp. The other cases had to be analyzed one by one, in keeping with our positions and, of course, those of the Americans. The government previous to that of Dr Mario Soares, which is to say that of Dr Pinto Balsemao, had contended that the negotiations should be carried out case by case. First the Lajes base, then any negotiation for installing a tracking station on Portuguese territory--which is a more limited subject although not without importance--and finally the question of Beja, but no commitment was made about it.

DN: But the Americans want concessions in Beja...

CM: They do. The request is still on the negotiating table and we do not refuse to negotiate; it is just that we did not want to link the discussion to anything related to Beja. We simply agreed to continue the discussions.

DN: Was there any political quid pro quo for Portugal due to our having signed the Lajes agreement?

CM: There was no political quid pro quo in the sense the phrase conveys. We did not ask the United States to take any particular political position toward us.

I should, in fact, make it clear that the negotiations were never conducted in terms of our asking anything of the Americans in return for our having granted concessions. The negotiations were conducted on a different level: we are conducting discussions with the United States; we are allies; they need concessions; we also have our problems; let's see what we can do about it. But never in the sense of a political payoff.

We Got What We Wanted

DN: But something must always be gained...

CM: Of course. We got what we wanted. We wanted continued financial assistance for the Regional Government of the Azores, and it was continued. We had also wanted economic assistance for mainland Portugal.

DN: But there wasn't any economic assistance for the mainland...

CM: Within the context of this agreement, no. But there will be in the future. We did, however, obtain U.S. assistance for a plan to modernize the Portuguese Armed Forces, who contend that they must fulfill their obligations to NATO and are not in a position to do so. When the Americans say that they need concessions because of NATO, we say that we also belong to the Atlantic Alliance and we also have our obligations to NATO and if anyone can help us it is the Americans. It was in this context that everything was framed. In regard to economic assistance, the initial U.S. idea was a fund of \$40 million, approved by congress, to be made up as follows: \$30 million for the Azores and \$10 million for a Luso-American Foundation on a broader scale. The fact is that the entire \$40 million went to the Azores.

DN: Was it a victory for Dr Mota Amaral over Prof Mota Pinto and Dr Jaime Gama?

CM: I must confess I don't know, because I did not participate in those discussions.

DN: But what is your position, as a diplomat?

CM: As I said, all of the \$40 million went to the Azores, which is not to say that the mainland will not also benefit, because the agreement mentions that Luso-American Foundation I referred to. As we are going to continue negotiations and we are going to begin negotiations about the tracking station--as the U.S. ambassador in Lisbon told your newspaper--it is quite probable that the mainland will, in fact, be considered. Moreover, I am convinced that for 1985 we will have an appropriation greater than the \$40 million approved for 1984.

DN: Don't you think that this Lajes agreement also represents, even in the way it was negotiated, an excessive dependence by Portugal on the United States? I ask you this because even at the time of the Democratic Alliance there were those who criticized our excessive loyalty to the United States.

CM: I don't think so. Ever since we decided to join NATO our relationship with the United States has been perfectly normal and natural--it would be odd if it were otherwise. As you know, the United States is the strongest country in NATO and it helps many other countries, among which is our own, because it has great

economic and financial capacity. Moreover, Portugal geographically is closely linked with the Atlantic Ocean and Azores is the halfway point for the United States. For a long time we have also had commercial relations with the United States, that have existed for centuries. For all of these reasons our relations with the United States are perfectly normal.

DN: In any event, you have put great stress on the geostrategic importance of the Azores, but that Portuguese archipelago is not now part of the IBERLANT [Iberian Atlantic Command]. Wouldn't it be normal for it to be?

CM: There is a Portuguese aspiration to take the Azores out of the SACLANT [Supreme Allied Atlantic Command] and put it under a command more closely linked with mainland Portugal. It is our old aspiration, perfectly legitimate, but it must be negotiated within the framework of the Atlantic Alliance, because it transcends the level of bilateral relations.

United States Has No Alternative to Lajes in the Atlantic

DN: You certainly remember the way in which Salazar regarded negotiations with the United States. Would you care to draw a parallel with the current negotiations?

CM: It is hard to do. Dr Salazar had a very particular phobia in regard to the United States. He was very distrustful. His policy in regard to the Azores was that it should not benefit the Americans when they wanted to use a base in the Azores. He finally gave in through an indirect process, by calling on the alliance with Great Britain. But he also was careful not to ask for any quid pro quo.

DN: Well, then, he negotiated the Lajes base in the same way as now...

CM: Yes. Although he did not have the economic difficulties that we have now. And this is always important.

DN: Do you think the United States has no alternative to Lajes?

CM: It has no alternative in the Atlantic.

DN: But can it have in other European countries and, in some way, prefer Lajes?

CM: It is hard to answer. I am not a military expert and to answer your question involves some technico-military knowledge. But, based upon what I know, all these points of support are necessary. Because, moreover, the additional concessions the Americans were asking for, contrary to what many people think, are not, strictly speaking, a strengthening of military forces. They are a strengthening of storage capacity for inflight refueling. They want to increase the fuel capacity in Lajes; they perhaps would like to have a refueling stop in Beja, for example. These are thus not bases to bar the enemy's path. They are refueling bases and, as such, are all essential. If I were responsible for directing the U.S. forces, all these points would have to be available to me. The most alternatives possible. Because, tomorrow, there would be no way of knowing which of them would be free or not. As a corollary to all this, I don't see how the United States could get along without Lajes in the Azores.

DN: Do you support the idea that we should always say yes to the Americans as long as there is a request for use of the Lajes base?

CM: I don't think so. I think we have to take several factors into consideration. First, we must know whether we are dealing with a problem that concerns defense of the NATO area or of the Western world, or of anything else that concerns us.

DN: What about the case of conflict in the Middle East?

CM: In conflicts of a more regional nature, such as that of the Middle East, we must know what repercussions the granting of a base would have on relations with other countries. If we are certain that there will be no reprisal, that there is enough fuel for Portugal, then we can make a decision. But what if there are reprisals by other nations and Portugal's fuel supplies are threatened? Another decision to make. There would thus have to be a case-by-case judgment, always keeping in mind safeguarding of the national interest. There can never be an automatic concession of the Lajes base outside the scope of NATO.

8834

CSO: 3542/29



## CONSERVATIVE PARTY CRITICIZES GOVERNMENT ON FUNDING

Stockholm SVENSKA DAGBLADET in Swedish 22 Jan 84 p 2

[Editorial: "Fight for Defense"]

[Text] Lack of political leadership is carrying us toward a repetition of a historic mistake. We are about to weaken our armed forces at a time when tension is mounting in Europe and our own security situation is more exposed than at any time in the postwar period.

We can recognize the pattern from the 1930's. Political division and lack of clarity in the Social Democratic Party are leading to a weakening of defense when reinforcement is justified instead.

The development is a highly tragic one.

Within the Social Democratic Party there is a vocal and idealistic support for peace. As far as that goes, it can be admirable to defend peace so loudly. But when this is combined with ignorance, there is reason to object. In practice, ignorance and unwillingness to see things in context cancel out the idealism.

The ignorance consists of unwillingness to take a stand on the difficult issues involved in security policy and it gives free rein to slogans when there should be expert analysis of the security situation and the military developments instead.

This ignorant opinion is a minority one. It would not pose any problem for a strong political leadership in the Social Democratic Party. The vast majority of Swedish people would be glad to listen to a government and a prime minister who backed defense, who interpreted the needs resulting from a dispassionate analysis of how our security situation has changed and how our situation is affected by military developments in our vicinity.

It should not be difficult to gain support for the strengthening of defense resources that is needed in order to implement the 1982 Defense Act.

But this strong political leadership does not exist. Instead the ignorant opinion with the support of the Finance Ministry's ambition to save money has led to weakening our ability to defend ourselves in a situation where the threat to our country is increasing.

Defense acts are no longer a matter of the government and Riksdag setting a firm course of development for the armed forces over the next 5-year period. Now defense acts are more an annual recognition in Riksdag of how defense will develop as a result of various unforeseen events during the past year.

As a result of this arbitrary process we now run the risk that three--out of 11--fighter plane divisions that really should be retained will be abolished, that the JAS [fighter-bomber-reconnaissance plane] will not get the weapons system planned, that there will be no expansion of the air force base and command system, that naval defense of the west coast will be weakened considerably, that submarine defense will not be strengthened as much as it should be and much more.

In an emergency, the government will agree to compensate the armed forces for part of the effects of the high exchange rate of the dollar. Why this particular factor should be of special interest or provide a more legitimate reason for increasing funds than anything else is not known. Actually it just confirms the impression of the arbitrary nature of defense policy.

The nonsocialist parties seem tempted to fall in line with the Social Democrats anyway. In the short term this could provide the armed forces with more money. But in the long run the problem would be even worse. Agreement with the Social Democratic policy today could lead to a future non-socialist government being committed to a Social Democratic funding policy for many years to come.

Defense is worth fighting for. Public opinion can be induced to support the cause of the armed forces today. And after a change of government we can return to a responsible defense policy, a policy that does not just get decided on the basis of the lowest common denominator between an ignorant peace opinion and a bookkeeping approach to budget policy.

6578

CSO: 3650/113

## STATE SECRETARY BAUER ON BUDGET, STATE DEBT

Vienna DIE INDUSTRIE in German 8 Feb 84 pp 7-8

[Interview with State Secretary for Finance Holger Bauer by Heide Groemansperg: "Squaring the Circle"]

DIE INDUSTRIE: The federal finance debt almost tripled between 1975 and 1980 and has since grown by another 40 percent. The rising interest payments alone have led to a self-perpetuating system of debt growth. Mr State Secretary Bauer, what possibilities and what opportunities do you see for getting out of this vicious circle?

Bauer: The trends you mentioned are true. This at the same time emphatically, excessively clearly, and **comprehensibly** to everybody demonstrates that something had to be done, that the real reason for the unpopular but urgently necessary package of measures by the federal government had to be presented.

DIE INDUSTRIE: But that will not be enough.

Bauer: This is not a matter of having to meet the payment obligations we entered into. We must however make a new start. And that was done. The net borrowing was definitely reduced although, in absolute figures, from presumably 70 billion Schillings down to 63 billion Schillings and, from about 6 down to about 5 percent, measured against the gross domestic product. The difficulty resides in the fact that we must carry out this budget consolidation, the gradual reduction of new borrowing, during an economic recession. Otherwise that would be no great feat. A cut in government expenditures is a very ticklish matter at this point in time. One may or may not agree with the high government share. The fact is that government expenditures signify demand. At a time in which economic growth is no longer very great, their reduction turns out to be counterproductive.

DIE INDUSTRIE: This presupposes a productive utilization of government expenditures which is not so in many cases.

Bauer: This is why we placed the emphasis on genuine savings and not on reshuffling and this why we tackled the situation both in the bureaucracy and in social benefits. It was not a simple thing to make that clear to the coalition partner and to push through even a slight shift in the accent from direct investments to indirect investments.

DIE INDUSTRIE: To keep the federal contribution to pensions within limits, which in the final analysis also pushes new borrowing up, plans call for a pension reform. On that score however we have so far not heard much from the FPÖ [Austrian Liberal Party].

Bauer: Because it is being prepared first of all by the competent department, that is, the Social Ministry.

DIE INDUSTRIE: Without any fundamental requirements from the coalition?

Bauer: We do not as yet have any government resolutions or informal agreements. There is only agreement to the effect that it is necessary to tackle a reform in view of the budget deficit. Without being an expert in the field, I am personally of the opinion that a pension reform cannot signify only an increase in contributions. One must try step by step, systematically, but slowly and cautiously, to get closer to the insurance principle--in terms of greater equity in contributions--from the system which currently to a good degree is based on the rate [levy] method.

DIE INDUSTRIE: But that presupposes the buildup of a tremendous capital stock.

Bauer: Certainly. This is why I also say: Tendentially.

DIE INDUSTRIE: In your opinion, is the widow's pension a basic social benefit or is it an entitlement in itself?

Bauer: It is a welfare benefit, to a good degree. Let us assume we have 40 years of contributions at a contribution rate of 20 percent and let us assume that this is followed by 15 years of pension payments. That cannot come out right.

DIE INDUSTRIE: One can reproach Dallinger for many things but there is truth in the argument that the pension reform, aimed at reducing the federal government subsidy, would at least equally have to be a concern of the Finance Ministry. How do you explain the loud silence we are getting from Himmelpfort Street?

Bauer: That springs from the reality of our constitution, from the responsibility of the particular minister. What he works out with his experts will be examined within the federal government to find out just to what extent it is politically tolerable and acceptable. One cannot make this depend on arithmetic alone. We must not entertain any illusions. There is only a difference of degrees between whether corresponding pensions are to be financed through higher contributions or higher taxes.

I believe that--in view of the significance of pension reform--one should get the opposition party involved in this likewise especially since it loves to represent the social security beneficiary. Of course, I do not have any great hopes for any consensus. Things simply are not going to work the way Dr Mock thought they would, that is, pension reform without contribution increase and without benefit reduction but reduction in budget deficit through a lesser federal contribution. Squaring the circle is simply impossible.

DIE INDUSTRIE: Do you think it makes sense to take the OeBB [Austrian Federal Railroads] out of the budget?

Bauer: Yes, because in this way we at last would be using an accounting system and we would be employing business-management principles. Oddly enough, the OeBB show a particularly high deficit during the years in which they carry out major rationalization investments which is why these are not being carried out to the degree possible and desirable. Of course, the Railroad Worker Union does not go along with this because it is afraid that the OeBB workers might lose civil service status. This is why I could indeed visualize that the assets might be taken out but that the employees would be retained in a status which would not cause them to feel that this was done to their detriment.

DIE INDUSTRIE: Taking the assets out and establishing special companies--as in the case of highway construction--would however not be exactly in keeping with the principle of truth-in-budget and tight budget execution--something which they keep harping on.

Bauer: Taking the assets out--to the extent that this is not merely a trick of budget cosmetics--would take us away from simply juggling figures and would move us on to genuine budgets. Anybody who can add can trace the federal government's obligations. Liabilities are shown quarterly.

DIE INDUSTRIE: Anybody who can add two and two--financing debt and miscellaneous federal obligations--will find himself facing real horror statistics.

Bauer: When it comes to government indebtedness arising from liabilities, Austria is in the lower third. The figure happens to be 400 billion Schillings and no more; the federal government's total liability ceiling of 250 billion Schillings is thus used up to the extent of 225 billion Schillings.

DIE INDUSTRIE: To make good on federal promises to the VEW [United Electricity Works], we will need 13 billion Schillings in 4 years alone. That is twice the genuine savings resulting from the package of measures which you reported.

Bauer: The 1984 VEW share is contained in the budget. Deletions can be justified if we are going to finance things which can be used not only in one or two years but throughout generations. We must pay attention to economical budget execution and naturally we must also build the 1985 as well as the 1984 budgets on a zero base precisely because the package of measures, with its new revenue sources, will mostly take effect only next year. One cannot institute tax increases to this extent every year. Personally, I am of the opinion that we are just barely below the ceiling of that which is possible.

DIE INDUSTRIE: But debt servicing has since 1983 been greater than repayment and the automatic, unproductive debt keeps growing year after year.

Bauer: This is why one must figure on savings and naturally also higher revenues through nominal economic growth.



DIE INDUSTRIE: Where else do you want to make savings?

Bauer: So long as we have a recession, we cannot do that in the investment sector but rather we have to do it in the administration, in the social expenditures. Once the economy flourishes again, then it will be easier to make linear cuts. The government's share out of economic activities is high, anyway. To be sure, there should be no tremendous drop in the demand.

DIE INDUSTRIE: Additional savings in practice would mean another package of measures. Why has this not been said clearly so far?

Bauer: The package of measures shows how meaningful the coalition can be in times such as these. One partner--precisely the socialists--has it much easier when he can argue and that--if you please--is the price of coalition. I am against talking big. But what has just been done and what would have been bitterly necessary for many years is something that a government run by the socialists alone would have found much more difficult to accomplish.

DIE INDUSTRIE: Does that also apply to the tax reform? In talking to ARBEITER-ZEITUNG, you announced that many special emergency provisions are being abolished and that, in return, the rate is to be reduced by 3-5 percent. We would really be astonished if you were able to pile up all that much by means of some deletions.

Bauer: So would I. The report was entirely too terse. The tax cut will depend on the extent to which special exceptions and privileges come down. I do not believe that an equivalent for 5 percent rate schedule reduction would be possible. If we can get 3 percent, that would already be a tremendous success. And that would happen only if we make the politically maximum deletions, if we order overtime work, and if we create other benefits, special expenditures, and lump-sum payments. But I do not believe in that either.

DIE INDUSTRIE: Let us now look at the key word: Overtime hours. Should the tax exemption be dropped?

Bauer: I believe that we have to make a distinction here. Looking at the exemption for overtime hours, which are put in continually, for the so-called lump-sum payment, I can visualize that it would certainly make sense to delete it. But, looking at it from the enterprise angle, I would consider it rather a problem to proceed in a general fashion. Workers must be motivated so as to meet peak requirements. If we are going to retain all of those special exceptions, except for this one, then we will not achieve a rate reduction.

DIE INDUSTRIE: As far as you are concerned, is there a cabinet question, a point at which you would say that you are no longer going to go along with that? For instances, on the tax for the 13th and 14th pay envelopes you hinted at something like that.

Bauer: The 13th and 14th pay envelopes were something like that. It had been agreed upon not to touch either of them and agreements must be carried out. A cabinet issue--without dramatizing the situation--would also arise if we were to depart from the objectively necessary consolidation policy.

## ECONOMIC SIGNIFICANCE OF ARMS INDUSTRY

Vienna DIE PRESSE in German 20 Jan 84 p 10

[Article by Monica Riedler: "Defense Technology as an Economic Factor, Why Austria's Companies Do Not Refuse Weapons Business"]

[Text] The mere mention of this is problematic. Austria does not produce any offensive weapons, thus it is more accurate to speak of the defense industry rather than the arms industry; the best thing is simply to say producers of military equipment. Even former Chancellor Bruno Kreisky reacted sensitively to the word "tank," at the most he spoke to his Arab friends of "cross-country tracked vehicles."

It is not solely because of discretion that this industry increasingly avoids calling a spade a spade. At least in Austria part of it is the fear of more or less violent antiweapons discussions.

No matter how you look at it, approximately 40,000 jobs in Austria depend directly or indirectly on this industry, as the Ministry for Defense knows. Even if State Secretary Ferdinand Lacina considers this "impossible." "I know no concrete numbers, but if it is more than 5,000 workers, it's a great deal. Especially in the weapons, ammunition and electronics sectors." The economic expert says that the manufacturers of plastic helmets or military shirts cannot be included in the arms industry.

Then Lacina switches to the fundamental issue: "For national and security-policy reasons it is essential that the army cover its requirements domestically, but we can do so only in some areas. It is quite clear that for reasons of economy experts are essential for these companies." To be sure, he is drawing fine lines. It will not be possible to close one's eyes to the production of ammunition, grenades or mine launchers, nor to their export. Lacina makes his position more precise by saying: "But I consider wrong any strategy which proposes to provide resources for civilian production by insisting that it come from profits from weapons production." Rather, he subscribes to the opinion of CA general director Hannes Androsch who stated that as far as he is concerned profits from these areas are a gamble, and no budget committee can develop its budget on them. "That is a reasonable statement for Steyr and also for others."

No distinctions at all between the different kinds of military equipment are allowed in the Ministry for Defense. The head of the defense technology department, Walter Zeininger, states emphatically that "the price of our neutrality is the production of security. And we need the industry for that." This lawyer, who formerly was active in private business, cites Switzerland and Sweden as clear examples of neutral countries whose weapons production and exports are acknowledged without resentment both at home and abroad. In all, annually 10 trillion Austrian schillings are realized in the international weapons business. Austria's share is about 10 billion.

In the year just ended, for example, the army purchased in Austria weapons, ammunition and explosives costing more than 800 million Austrian schillings. Zeininger says: "We can absorb only a certain amount, the rest must be exported. Only in that way can our suppliers function economically and also plan more favorably." On the other hand, the industry needs the military in order to be able to present its credentials for its products outside Austria.

WEHRTECHNIK, the German technical journal, in No 4, 1983, devotes its national profile to Austria's defense industry. There is "a large number of small to very large companies active in the defense business: The main customer is the Austrian army, but exports are gaining in importance." Provided that potentially interested parties are not held back from buying Austrian military products again because of heated discussions or that the deliveries are not authorized by the government. An insider states his objections to export restrictions this way: "It is not only the manufacturing company affected which must bear the consequences, for the most part many subcontractors are also involved." Thus, for example, Steyr's tank business, which has been stagnating since the Chile affair, resulted in the loss of about 200 jobs in the VOeST [United Austrian Iron and Steel Works, Inc.] where hulls and turrets for tracked vehicles were manufactured.

Apart from the question of jobs, arms exports bring in foreign currencies and thus fatten up the somewhat anemic domestic balance of trade, guarantee full utilization of production capacity and profits which are also used in civilian areas for further development. Of the 27 domestic enterprises which WEHRTECHNIK lists in its report the nationalized conglomerate VOeST occupies the most space. As a licensed producer, for example, "of a gun howitzer which was developed in Canada and is distinguished by a range which has not yet been achieved by other guns: 30 km with a special shell, 39 km with a base-bleed addition" (which may not be produced or used in Austria). Or: "The British L-7 105-mm fixed tank gun is gearing up for production, too... The company likewise acquired the license for the French 105-mm KE ammunition OFL 105 F1 for Austrian needs and for export." The VEW [Organization of Austria's Electrical Works] is cited from among VOeST's subsidiaries, as are the Hirtenberger ammunition manufacturers and the Ennstal metal works which involves the people of Linz. VOeST press spokesman Franz Summer avoids any comment by saying: "We deny nothing, but we also confirm nothing." Ranshofen-Berndorf general director Rudolf Streicher, whose United Metal Works also produces mine probes, comments in a similar vein: "We are primarily suppliers of raw materials and aluminum does play a large role in defense technology."



The exports of Schrack's military electronics section are just in the per mille range of sales, but, as Schrack representative Werner Knaus says: "We are on the verge of expanding that." And: "For any development order from the army we are figuring on substantial export opportunities."

In this group of industries we must not overlook pistol manufacturer Glock from Deutsch-Wagram whose "Glock 17" is described by colleagues in Cologne as "the most unconventional pistol...with several fascinating features." Or the OeST [Austrian automobile factory]-Graef and Stift, Inc. whose "broad know-how in the area of special and cross-country trucks" is praised as well as the development of an armored reconnaissance vehicle whose prototype is currently being tested by the army.

In the entry concerning Steyr-Daimler-Puch the journal notes that "defense technology plays an important role in the enterprise which is heavily focused on export." The ban on this area would also have serious consequences: the loss of 2,613 jobs in factories in Steyr, Graz and Vienna-Simmering.

12124

CSO: 3620/i60

## IMPROVEMENTS IN EXPORT POSITION, COMPETITIVENESS

Zurich NEUE ZUERCHER ZEITUNG in German 7 Feb 84 p 9

[Article by T.H., Brussels]

[Text] The Rue de la Loi, the official residence of Prime Minister Martens, views the prospects for cyclical recovery this year with much confidence. Martens' Chef de Cabinet Verplaetse--he is the architect of the spring 1982 devaluation of the Belgian franc which marked the beginning of rigorous austerity measures--expects the export-led recovery, which began last summer, to continue. He believes that it will lead to an increase in investments and put an end to the negative employment trends. In addition, a balanced current account would permit a reduction of foreign debts.

These optimistic expectations for economic growth are being confirmed by OECD forecasts. However, the extent to which it will be possible to get closer to achieving the priority goal of a drastic reduction of the national budget, does not only depend on the support the anticipated 1 percent growth rate of the international payments balance can provide but also on political decisions expected in the next few weeks. Martens is working on a new austerity package designed to fleece the already-embattled private households of about BFr 200 billion and to help bolster public revenues. However, he has to keep in mind that parliamentary elections are scheduled for not later than 1985 and that he does not want to enter them burdened down by a social debate that could require another complete turn of the austerity screw. The budget control planned for February will provide an opportunity to define his government policies more clearly. At any rate, possible decisions will have to be made by the end of March since that is the time when the special powers Martens can use in the budget and labor-cost area will expire.

## Competitiveness Regained

At the bottom of this optimism about economic recovery is the increase in merchandise exports whose volume expanded by 5 percent during the first 8 months of 1983. Adding services, this means an annual surplus of BFr 30 billion compared with a BFr 50 billion deficit in 1982 and of BFr 85 billion in 1981.

According to Verplaetse, half of the export expansion is due to brisker foreign demand and the other half to an increase in market shares. The Belgian economy has recaptured its competitiveness, he says, and the first results are beginning to show. The Kredietbank made a study of this key problem. It found that, until 1977, unit costs of production in Belgium had risen faster than in the leading competitor countries. The year 1977 saw the beginning of a reversal of that trend which reached spectacular proportions in 1981. The manufacturing sector could regain the 1970 level as early as 1981, and the economy at large in early 1983. This trend was reinforced by production increases which, in Belgium, was an average of 2 percent higher than in the key trading partners.

#### Industrial Revitalization?

This, the Kredietbank points out, is an illusion because, for the largest part, the production gains are of a static nature. They resulted from the disappearance of unprofitable businesses or production lines, not of a modernization of the productive system.

By disregarding this optical effect and by concentrating on sales and purchase prices, the analysts have come to the conclusion that, in the 1970's, Belgium's competitiveness declined much more than a simple comparison of unit costs of production would suggest. True, one will ultimately reach the conclusion that they had largely made up for the decline by the end of 1982, but the Kredietbank believes that labor-cost trends in the 1970's have eaten into the gains which had already been narrowed as a result of aggressive export pricing policies so that hardly any room was left for further maneuvering to stimulate dynamic industrial growth. A growing number of enterprises had moved to the relatively protected services sector which requires less specialization and modernization efforts to compete with efficient international competition. Of course, these findings serve a purpose; they are to support the conclusion that, in order to accelerate industrial restructuring, it is not sufficient to ensure that unit costs must not exceed those of our trading partners. A broad hint to indicate that further intervention in wage developments is appropriate.

#### Rate of Unemployment Slowing Down

Last year's export expansion has cut the balance of payments deficit to BFr 70 million from BFr 155 million in 1982. The lower negative balance has permitted the central bank to almost halve its intervention. During the first 9 months, industrial production rose by 2.3 percent and private sector employment declined by only 3,000 workers. A year earlier, it went down by 38,000, and in 1981, by an even larger 86,000. Apart from cyclical effects, this, in a way, is also the result of government policies to reduce working hours and hire additional workers. Government estimates indicate that it will be possible this year to halt the increase in the unemployment rate which, in 1983, was at a high 11 percent. Investments will play a key role; they are expected to expand the utilization of capacity, which currently stands at 80 percent, by 10 percent in manufacturing and by 3 percent in the economy overall. This clearly is more than what the OECD had forecast when it estimated a 1 percent increase in the private sector, excluding construction.

### More Confidence in the Belgian Franc

The lower inflation rate--7.7 percent last year--and the higher profitability of Belgian business has slowed down the export of money capital. During the first 8 months of last year, the private sector exported a total of BFr 16 billion; during the same period of 1982, the total was BFr 86 billion. Growing confidence in the Belgian franc is also reflected in the way money is invested. While in 1981, only 70 percent of all investments was made in Belgian francs, by 1983, the figure had already risen to 92 percent. The government was able to finance a larger part of its deficit--estimated at 14.7 percent (compared with 15 percent) of the balance of international payments--on the domestic capital market. The target for this year's deficit is 10.5 percent but, as indicated earlier, fiscal policy maneuvering is still in the offing.

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## ECONOMIC, INDUSTRIAL PROJECTIONS FOR 1984

## Technique of the Panel

Paris L'EXPANSION in French 6 Jan 84 p 69

[Text] It is a first in economic journalism: 411 enterprises (80 in commerce and services, 306 in industry, and 25 in banking) joined the L'EXPANSION- Enterprises panel. Henceforth, they will be regularly questioned about the economic situation, wages or the news. The first survey, of which we are publishing the results below, revolved around the projections of the enterprises for 1984; it was carried out by questionnaire between 8 and 28 November 1983.

The company managers who agreed to do this were given the assurance of the strictest anonymity. We thank them for their trust. They made it possible for us to put together a representative sample of all French enterprises, private and nationalized, employing at least 100 individuals. It was not possible to include small enterprises in our panel without excessively swelling the size of our sample and thus running the risk of too great a variation in results. On the other hand, the non-competitive public sector is not included. One hundred and fifty enterprises were chosen on the basis of their weight within the French economy and within their sector (among them: 60 companies employing more than 5,000 individuals). The other 261 (primarily PME's [Small and Medium Sized Enterprises]) were chosen randomly, following a first selection based on their size and their branch of activity.

We thank the experts who advised us on establishing the method of sampling and on how to use the responses to this first survey.

## Austerity Program Figures, Trends

Paris L'EXPANSION in French 6 Jan 84 pp 54-60

[Article by Philippe Lefournier: "Where Does Austerity Take Us?"]

[Text] To a trade balance... and to unemployment. The temptation to reverse course will be great.

In 1984, the French economy will stagnate for the second consecutive year, which has never happened since the war. Unemployment will spread irresistibly. On the other hand, foreign trade will be balanced again. This will be a relief for the franc, all the more so as price hikes will slow down by about 1.5 points. Hence, the "rigor" would bear unquestionable fruit. But we cannot exclude the possibility that the growth in unemployment will lead to a change in economic policy: the latter would precipitate a crisis of change, without for all that transforming 1984, which is a lost year in terms of growth. On the other hand, the years 1985-1986 would once again become questionable, because then France would once again find itself going upstream compared to foreign countries, or else there is the risk that the American financial contradictions will then result in a relapse.

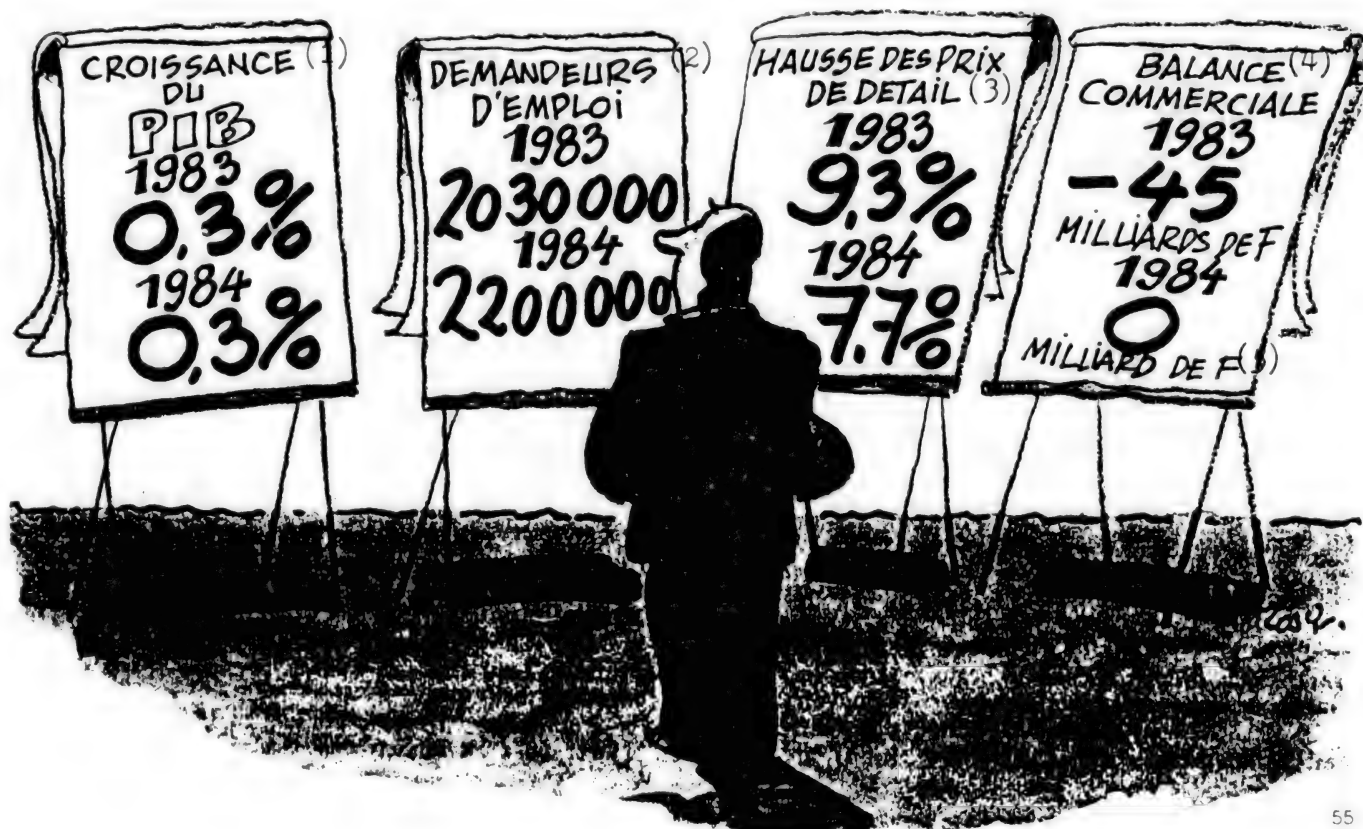
If one limits oneself to 1984, then this should be -- under the impulse of the vigorous recovery in the United States -- a good year for world economic activity. The contrast will be cruel with a France dedicated to austerity. But this discrepancy is necessary to repair the mistakes made in 1981-1982 and to complete the recovery of the balance of trade. Until now this recovery has taken place without recession! Without the sudden rise in job requests, at the end of 1983, one might nearly have said, with Pierre Mauroy, that the flashing lights were "calmly turning back to green..." Following the plan of March 1983 a drop in production was generally feared. In the end, due to an unexpected balancing act between the depression of domestic demand and the rapid expansion of foreign demand, the fall did not take place. We expect that this miraculous compensation will continue in 1984.

Perhaps a slight downward correction of the trajectory will occur in the beginning of the year; the second quarter would then show a small hike. Hence, the profile of production would be the reverse of 1983. But, in terms of 1984 as a whole, the GDP would be flat, or with as little growth (plus 0.3 percent) as last year. However, this balance between the "minus" of the domestic and the "plus" of the foreign is fragile. Our traditional survey among the major sectors of the economy (see Table 5) has never exhibited as much uncertainty -- and anxiety -- as this year, even if the result of the discrepancy between domestic and foreign markets is most often zero. As a matter of fact, the average performance figure of the French economy is becoming more and more unreal because it covers so many contrasting situations among sectors and within a single sector, among companies. As Martin Feldstein -- the chief advisor at the White House -- told us about the American recovery: it is "lopsided"; a fortiori, the French development is also lopsided. The first results of the L'EXPANSION-Enterprises panel provide a striking confirmation of this (see Table 21). Beyond the general stability announced from 1983 to 1984, they measure the growing contrast between the



enterprises which are doing well, the PME's -- some of which will continue to do well --, and those which are doing badly and which will not do better, the large enterprises. The distribution curve of companies in function of expected growth illustrates this differentiation in a surprising way: it has two peaks!

Table 1. Comparison 1983-1984.



Key:

1. Growth of the gross domestic product
2. Job seekers
3. Increase of retail prices
4. Trade balance
5. Billions of francs

The greatest difference occurs depending on whether one is carried by exports or not, as domestic demand is declining. The chemical industry, the textile industry, the paper industry, even the automobile industry have greater hopes in this respect than the steel industry, the mechanical engineering industry, the aeronautics or naval construction industry, and the BTP [Building Trade and Public Works]. Within a multinational group like Saint-Gobain they do not hide the fact that the dynamism comes from abroad: "The factor that

saves us are foreign countries. The declining results inside France are compensated by the results obtained outside France. We pump foreign country markets: it is the colonial system!"

Hence, it should be possible to maintain production as a whole in 1984. It is striking to note the inertia of production in spite of the spectacular back and forth movement of the French economy with regard to foreign countries. As our graphs illustrate (see below), while the unilateral recovery of 1981-1982 did not improve national activity, it deeply damaged the foreign balance; symmetrically, the stringency did not bring production down but, while the other countries are starting up again, it puts the balance of trade on its feet again. This trend was already at work in 1983 and is expected to continue in 1984. "Do not underestimate the pull of the world economy!," is the advice given by Raymond Barre.

In the stride of a recovery, which is now 1 year old, the American economy will grow at the rate of another 4 percent during the year: consumer purchases, as well as home construction, will calm down but the rise in the rate of planned use of the production capacity is triggering more and more investment decisions in the United States. In spite of the serious crisis of its institutions, Europe itself is in the process of getting out of its lethargy: the drop in the rate of household savings and the end of drawing down inventories have revived business, specifically in the FRG and Great Britain, and inter-community exchanges as well as equipment expenses should take over. The economy beyond the Rhine, by itself, is expected to grow 2 percent in 1984. The rest of the world will not be very active, especially Latin America, which is over-indebted, and the Middle East, which is also in deficit; but the Pacific Ocean basin will resume its growth... Japanese style. As a whole, the world economy is expected to grow 2 to 3 percent in 1984, and international trade 4 to 5 percent (in volume).

French exports are expected to grow in the same way. After having lost market shares in 1981 and 1982, we won some back in 1983. The experts of INSEE [National Institute of Statistics and Economic Studies] believe that this recovery will not continue in 1984, either on the foreign markets or on the domestic ones; the OECD experts are more optimistic: according to them, the French market will increase nearly 5 percent in 1984 (for manufactured products), but its exports will increase more than 7 percent. The figure we used for our projection concerning all exports (plus 4.5 percent) does not seem too high. Conversely, the zero posted for imports is not too low because, following the minus 3 percent of 1983, it implies some recovery.

This new discrepancy between import and export volumes, magnified by the pursuit of an improvement in the terms of trade, leads straight to a balanced trade balance: hence, going from a record deficit in 1982 (minus 93.5 billion francs, in customs terms) to zero in 1984, the austerity plan will have achieved its first objective. The balance of current payments, which showed a deficit of 79 billion francs in 1982 and still about 35 billion in 1983, would also be virtually balanced. This should substantially ease the pressures weakening the franc... especially if a strong dollar contributes to making our encounter with the mark within the EMS a more comfortable one.

Table 2. The French Balance

(Average yearly growth, in percentage)

	National Accounts				Our Estimates		Our Projections	
	1978	1979	1980	1981	1982	1983	1984	
	Volume	Vol.	Vol.	Vol.	Vol.	Price Billions of francs	Vol.	Price Billions of francs
<u>SUPPLY</u>								
Gross domestic commercial product .....	3.3	3.4	1.3	0.4	2.0	0.3	0.3	7.8
Imports .....	5.2	10.5	4.5	-1.3	0.4	-3.0	0.0	6.5
Total .....	3.7	4.6	2.0	0.1	1.7	-0.4	0.2	7.6
<u>DEMAND</u>								
Household consumption .....	4.7	3.2	1.4	1.7	2.8	0.0	0.0	7.9
Consumption by administrations (1) .....	6.9	3.1	1.4	6.2	5.0	1.0	-0.5	7.5
Gross investments .....	0.5	3.2	1.2	-2.2	-1.1	-3.0	-2.7	7.9
of which: Industrial companies and enterprises....	2.1	2.7	4.7	-4.0	0.0	-3.0	-2.0	8.0
Households .....	-0.1	4.8	-4.2	-1.0	-5.0	-5.0	-4.5	7.5
Administrations ...	-3.7	1.6	-0.6	1.9	0.5	-1.0	-3.0	8.0
Financial institutions .....	-3.2	4.2	-5.2	2.8	1.8	0.0	0.0	8.0
Inventory changes (2) .....	+13	+33	+46	-4	+30	---	---	---
Exports .....	6.0	7.1	2.5	4.9	-3.9	3.0	4.5	7.5
Total .....	3.7	4.6	2.0	0.1	1.7	-0.4	0.2	7.6
Retail price (3) .....	9.7	11.8	13.6	14.0	9.7	---	---	7.7
Hourly wages .....	12.6	13.7	15.4	16.3	12.6	---	---	8.0

(1) Net intermediate consumption of residual sales.

(2) In billions of current francs.

(3) Shift from the beginning to the end of the year.

In 1984, the economy will experience only a minimal growth, as it did in 1983. Similarly, consumption will stagnate and investments will decline. But the exchanges will continue to become more balanced and the price hikes will slow down; the break applied to wages appears even more clear: their advance is expected to be the weakest since 1967...

This is, as a matter of fact, our hypothesis, which includes an appreciation of approximately 10 percent for the dollar in 1984 in relation to its average exchange rate in 1983 (7.60 francs).

More than a structural inadequacy of competitiveness or than an excess of inflation, we have always favored the impact of income (the isolated recovery of "popular consumption") as the cause for the erosion of French foreign trade. Now that austerity has reversed the economic growth gap with regard to the other countries, recovery is within our reach. It is true that the lesson is a bitter one and, if one is to believe the latest household survey by INSEE, the French have never historically been more pessimistic about the evolution of their standard of living! A poll carried out by Louis Harris for the Atlantic Institute specifies that this pessimism extends to 1984: only 7 percent of the French believe that their personal situation will have improved 1 year from now... as against 39 percent who believe that it will have worsened. According to this international survey, the Europeans are generally worried -- the least worried being... the English. But it is with the Americans that the difference is the most spectacular, as 33 percent of them see 1984 through rose-colored glasses (as against 12 percent who look on the black side).

#### Public Service More Lax than Private Sector

The domestic side of our accounts (see Table 2) is indeed rather depressing. Household consumption will be stagnant for the second consecutive year, which has not been seen since the war. Purchases of industrial products alone will fall 2 to 3 percent (in volume), as in 1983, distressing such sectors as household appliances, furniture, automobiles, clothing, etcetera. Even the demand for food products, which was going up 2 percent per year, could henceforth begin to go down. But expenditures for services continue to grow, at a reduced rate. It seems that zero growth is a ceiling and that consumption as a whole should not experience any contraction. The drop in the savings rate should prevent this. Already, in our calculations this rate is falling off by half a point, as in 1983, in accordance with our forecast; it has dropped to approximately 15 percent of the disposable household income. As was the case last year, the drop would affect savings allocated to housing (which would go to less than 9 percent of the disposable income), while the rate of financial savings would rather have a tendency to rise (6 percent of an income beyond 3,100 billion francs: this promises more good days for the bond market...).

Thus, the global drop in savings will compensate, in 1984 as it did in 1983, for the drop in purchasing power of disposable income: approximately minus 1 percent over the 2 years, a setback which has never been observed before either. Why this new drop? First, because of the slowing down of wages which, for the first time, no longer progress in relation to prices. This is one of the lessons from our panel: henceforth, wages and prices (at the production level) will evolve in close parallel. As a matter of fact, this discipline applies only to the private sector, because the public service is supposed to be more lax: "The safeguard clause will be respected, they say even in the halls of the Matignon Palace. This is a mistake, an enormous mistake, because it sets an example. The danger lies in the fact that wages could take off



again in the second quarter. "Our 1984 forecast in fact eliminates this risk of a skid, which we assume will be averted, on the side of the wage earners, by the increase in unemployment and, on the side of the employers, by the restraint of price control. Overall, in 1984, hourly wages are expected to grow by less than 2 percent per quarter.

A second reason for pressure on purchasing power will be the beginning of under-indexing social benefits (family allowances, pensions). The structural increase in health expenditures, unemployment benefits and old age benefits will nevertheless lead to a real advance of 2 to 3 percent of the bulk of social transfers... which, with more than 1,100 billion francs, represent 37 percent of household income. But, conversely (and this is the real cause for the decline of purchasing power), compulsory deductions will swell even more in 1984: social contributions will be increased by one additional point as of 1 January and income taxes will go up, for the second consecutive year, by nearly 10 percent in real value.

Unfortunately, because of competition the enterprises will not improve their own results. Their "purchasing power" (gross operating surplus) dropped to an historic minimum in 1981, and has stayed there ever since. The depression of the domestic market, the price control -- which does not allow one to benefit from the deceleration of costs --, and the over-indebtedness will work against the recovery. And yet, an improvement should emerge in 1984, for an essential reason: the reduction in personnel. This trend manifests itself both in the results of our panel (see below) and in the responses to our sector survey: not only are there no longer any companies which expect to increase their personnel strength, but simple maintenance has become the exception (see Table 5). All sectors expect that they may "release people." One of the bases for our 1984 projection is that they will do so, whatever the obstacles caused by the tension of the PC [Communist Party] and the CGT [General Confederation of Labor] may be, and the not very courageous arbitration -- as in the Peugeot-Talbot affair -- provided by the government. However, it is alleged that the government intends to settle the "major industrial dossiers" in 1984, in order to clear the way before the legislative elections of 1986. The trouble is that nearly the whole French economy is affected, as the following sectors are involved: automobiles, heavy chemical industry, steel, shipyards, coal mines... According to confidential figures from the CNPF [National Council of French Employers], the cost of subsidies alone represents 4,700 francs per month and per wage earner in the steel industry, 8,000 francs in the shipbuilding industry, 9,500 francs in the coal industry! There is bread on our plate which has not been stale just since 1981... "The enterprises remain very low," confided the manager of a large group. "They can no longer handle the surplus personnel. As for us, we no longer increase the volume of our production, but we reduce our personnel numbers, and thus we free precious productivity points."

Hence, job reductions will accelerate in industry, without being compensated, as they were before, by new jobs in the tertiary sector (see graphs below). Specifically, commerce, whose turnover is for the first time developing less than the rate of inflation and which, in addition, has also been hit by the narrowing of the margins, will stop recruiting as it did in the past. Hence, the total active population in France in 1984 will go down, and the number of

registered job seekers runs the risk (if no administrative counter-measures are taken) of rising by 250,000 by the end of the year: unemployment would then strike 10 percent of the active population, in painful contrast to the backward surge which has begun in most of the other big countries.

Thus, 1984 will be another year of weakening of the French production apparatus: fewer people at work and, one must unfortunately expect this, fewer equipment expenses. The weakness of the demand, the financial constraints, the administrative controls, the uncertainty about the ultimate government decisions discourage entrepreneurs from taking any risks. Not only do we not expect any replenishing of inventories, but investments are expected to decline slightly in yearly average (and in volume) -- in fact, this implies that they will end their long decline in the course of the year. Industry in the competitive sector could even, for once, be more dynamic than the large national companies or commerce, which were the ones to increase their investments since 1974. Being the key to competitiveness and thus to survival, some rationalization expenditures will absolutely have to be agreed to. "Our investment programs are on the increase, in volume, in 1984 as they were in 1983," they say in a nationalized industrial group. "But the bulk of them consists of expenditures for modernization, for technical improvement: we are not building a single new factory." It is striking to read in the national account that since 1981 the gross savings of the enterprises have been lower than the depreciation, lower than "fixed capital consumption"; not only is the level of net investments, the key to future growth, zero -- the production apparatus is no longer developing --, but it has trouble renewing itself: the French enterprises no longer maintain their machinery in good condition. The French eat up their capital.

Let us let a Nobel prize winner in economics, Lawrence Klein, draw the conclusions from this (not without recalling that Professor Klein, a "leftist Keynesian," approved the socialist revival): "In order to improve productivity, one must encourage capital formation. This is why the French government must reestablish relations of trust with the heads of enterprises, to encourage them to invest in key technologies. France's problem is not to obtain a high level of consumption, but a high level of investments. Public investments are only part of the problem. They should be stimulated, but together with the private sector. It is not a question of knowing whether it is a socialist policy or not: it is a policy which is good for France."

Among the measures which are likely to restore the confidence... and the profitability of industry, the freeing of prices is at the very top. "Fight against inflation," proclaims the campaign of the minister of finance for 5 percent in 1984; it means "to straighten out the financial situation of the enterprises"; it means "to strengthen investments"; it means "to develop our competitiveness"; it means "to fight for employment." There is not much question about any of this -- provided that the weight of the struggle does not rest on the enterprises! But these enterprises, as we have seen, have not yet recovered from the shocks of the oil crisis, shocks which they have suffered: their profits are at their lowest level and, in contrast with their foreign competitors, they are not drawing any benefit from the general recovery in the West; on the contrary, the price policy places a particular yoke upon their shoulders and prevents them from getting back on their feet.



This is where the explanation lies for the pessimism expressed in our panel concerning the 1984 results, and which is surprising as production is expected to level out, if not to go up slightly, and manpower is expected to go down...

Table 3. Return to Balanced Position Does not Stabilize Debt.

<u>Balance of Payments of France</u> (in billions of francs)	Esti-Fore-Projection							
	1979	1980	1981	1982	mate 1983	cast 1984	1985	1986
Current transactions .....	+22	-18	-26	-79	-37	-2	+25	+45
Foreign Trade (1) .....	-13	-57	-54	-104	-55	-10	+20	+45
Invisibles .....	+17	+21	+8	+6	-2	-12	-15	-20
Other goods and services .....	+18	+18	+20	+19	+20	+20	+20	+20
Capital movement .....	-28	-12	-67	-39	-55	-50	-50	-45
Errors and omissions .....	+2	+10	-12	-6	-5	-5	-5	---
Balance to be financed .....	-4	-20	-105	-124	-97	-57	-30	0
Variation in foreign monetary position:								
. profits (-) or losses (+) of								
public exchange reserves .....	-8	-28	+29	+33	-30	} 7	---	---
short term banking debt .....	3	30	43	13	37		---	---
Loans authorized for the long term								
(2) ..	9	18	33	78	90	50	30	0
Debt service .....	-11	-15	-23	-39	-59	-70	-80	-93
Interest on loans .....	-8	-10	-16	-25	-37	-45	-50	-55
Repayment of loans .....	-3	-5	-7	-14	-22	-25	-30	-38

(1) F.o.b.-f.o.b. (definition of balance of payments)

(2) After repayments.

The recovery, following the second oil crisis, has produced a trade deficit which we will get out of in 1984... without stopping to get into debt because of the erosion of the other items on the balance. In order to stabilize the debt by 1986 we would need a trade surplus.

According to an expert from the Department of Competition, the amount of inflation pushed back by the freeze and then the control is 2 to 3 points. This is undoubtedly why the Ministry of Finance is hesitating to free (industrial) prices. It even exercises strong pressure to ensure that the index rates are not too high in the beginning of the year. A concentration of increases would, as it did last year, immediately compromise the "5 percent" operation. We expect that the index hike could progressively drop from 0.8 to 0.5 percent per month, or from 4-4.5 percent during the first half of the year to 3-3.5 percent during the second half. By the end of the year, the shift in retail prices could be below 8 percent, which has not happened since before 1972.

But this result will be achieved only by maintaining strict controls, which are harmful to the enterprises. Faced with an upswing of their difficulties,

it will be impossible to maintain prices and jobs simultaneously, and it will rather be the latter which will give in. This is why the economic landscape we see being outlined in France in 1984 is rather somber: quasi-stagnation of activity, increase of unemployment. The norm set for the expansion of the monetary supply (between 5.5 and 6.5 percent, following 9 percent in 1983) will be particularly deflationary, because one should not expect (fortunately) capital exports which would destroy the currency, as during the previous years: hence, the shrinking of credits to the private economy will have to compensate for the creation of money which the Treasury needs to meet all the government deficits (see the flight of current Treasury bills in the current account in the graph below). The negative norm imposed on the credit structure in 1984 will cause particular suffering.

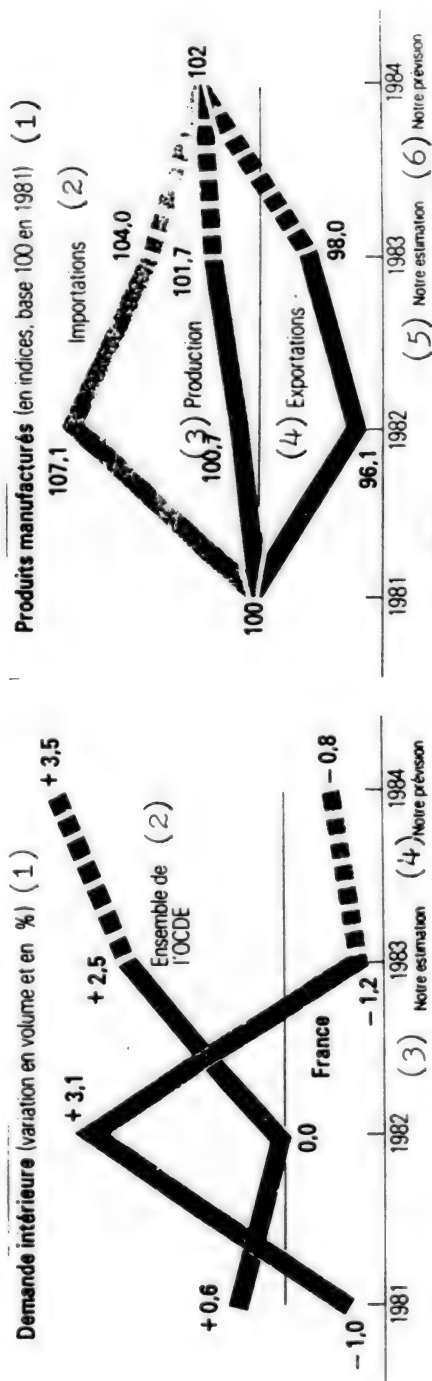
Obviously, the system is too constrained. To the 5 percent of the prices in 1984 and the 3 percent of the gross national product set as a limit for the budgetary deficit, the president of the Republic has now added the goal of reducing compulsory deductions in 1985 by 1 point. How can this be achieved without increasing the deficit or without eliminating the subsidies, which would cause the index number to go up? The system is "over-determined," as the mathematicians say: there are too many constraints. In all probability, the constraint of the budgetary deficit will be the first to blow (the limit has already been exceeded... in spite of the debudgetization, according to the figures in the graphs below). As a matter of fact, the economists of the PS [Socialist Party] are in favor of letting go of this budgetary constraint. But the debate is not yet current. The economic policy remains headed for austerity; the congress of Bourg-en-Bresse unanimously endorsed this orientation. With the current regulation, the year has largely been played, both in terms of the stagnation of production... and of the return to a balanced foreign trade.

#### Difficult Direction To Hold

But not everyone (including some administration experts) has become aware of this yet. When the recovery becomes evident, it will unfortunately coincide with the rise in unemployment in the spring. "Then things will get lively," reasoned a government advisor. "For now, the 'policies' are supporting the austerity: Delors' message came through. But by mid-1984 (especially in case of a bad score in the European elections) there will be a concert of criticism: why is unemployment on the rise in our country when it is going down elsewhere? Why, under those circumstances, prolong the austerity when the foreign balance has been restored? It can be expected that the government will have a pretty hard time holding to its course...

And yet, concluded this expert, "one should not stop before achieving a surplus of 3 billion francs per month." Indeed, one should look further than a simple trade balance. For two reasons. First, because it is a recession balance. It is due to a drop in demand (domestic) and not to a strengthening of the supply; the enterprises have become weakened, the government deficits are wide open and the public debt continues to swell: austerity itself does not mean stabilization; there is deflation without real disinflation. Basically nothing is settled, and any stimulation of demand would cause price hikes to take off again and would reopen the foreign deficit, eroding the

Graphs 1 and 2: France Always Off the Beat.



Source: INSEE

Key:

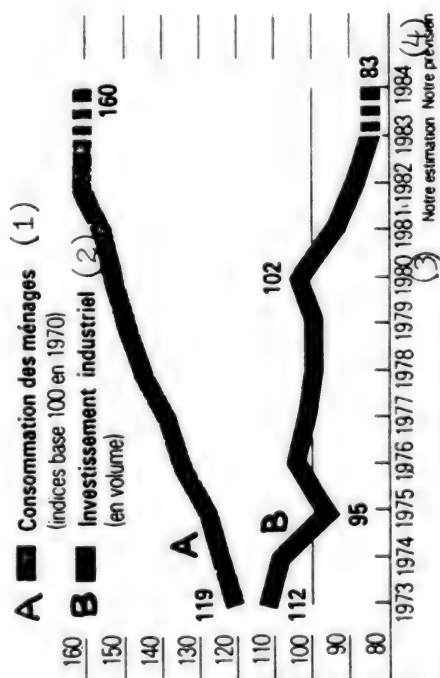
1. Domestic demand (variation in volume and in percentage)
2. OECD as a whole
3. Our estimate
4. Our projection

Key:

1. Manufactured products (1981 equals 100)
2. Imports
3. Production
4. Exports
5. Our estimate
6. Our projection

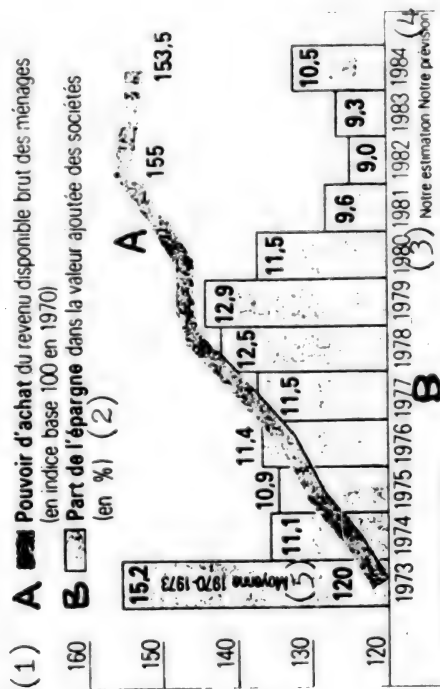
While the United States was dragging the world into the recession, France recovered; this caused a divergence of exchange rates which produced our deficit. Now that the American recovery is activating the OECD, we are reducing demand, which causes imports and exports to converge and the balance to be reestablished. Production itself has not been very much affected by this stop and go!

Graphs 3 and 4: Consumers Compared to Investors.



- Key:
1. Household consumption (1970 equals 100)
  2. Industrial investment (in volume)
  3. Our estimate
  4. Our projection

For the first time since the war, the consumption of the French is no longer growing and their purchasing power is declining. Symmetrically, investments are becoming stabilized, at least in industry: investments have not stopped falling since the crisis, except for 1980 as a result of the improvement of the results of the enterprises; since then, these results have fallen to an historic minimum, but are apparently recovering.

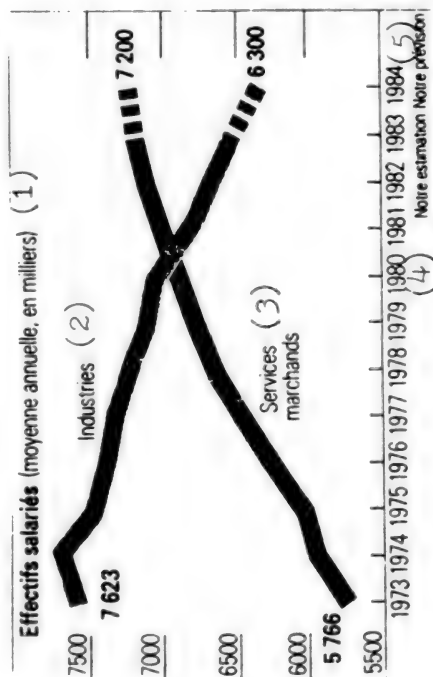


- Key:
1. Purchasing power of the gross disposable income of households (1970 equals 100)
  2. Savings as portion of value added of the companies (in percentage)
  3. Our estimate
  4. Our projection
  5. Average 1970-1973

Source: INSEE

Source: Ministry of Finance

Graphs 5 and 6: Fewer Jobs, Greater Deficits.

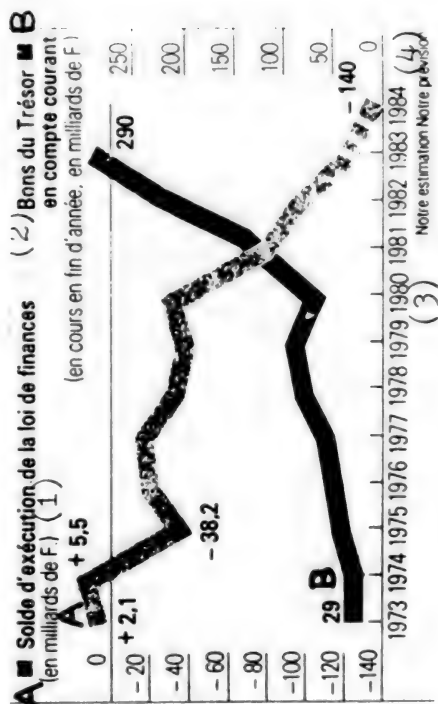


Source: INSEE

Key:

1. Wage earning manpower (yearly average, in thousands)
2. Industries
3. Commercial services
4. Our estimate
5. Our projection

The drop in industrial manpower will accelerate because of the weakness of demand and of reorganizations; they will no longer be compensated by the creation of jobs in the tertiary sector.



Source: Ministry of Finance, CNC [expansion unknown]

Key:

1. Balance of implementation of Finance Law (in billions of francs)
2. Treasury bills in the current account (valid at the end of the year, in billions of francs)
3. Our estimate
4. Our projection

In spite of the shrinkage of expenditures and... their debudgetization, the budgetary deficit is likely to exceed 3 percent of the GDP in 1983 as well as in 1984, forcing an acceleration in the creation of money.

Table 4. Forecasts at Zero!

(moyennes annuelles en %) (1)  
Croissance du PIB (2)(3) Hausse des prix  
en volume à la consommation

Prévisions faites (4)  
il y a un an

0,0 L'Expansion (5) 9,4

0,3 Réalisation (6) 9,3

0,5 OCDE (7) 9,0

0,5 Bipec (8) 9,8

0,6 COE (9) 10,0

0,9 Rexeco (10) 9,1

1,0 CEE (11) 8,9

2,0 OFCE (12) 10,3

2,0 Ministère (13)  
de l'Economie 8,3

2,4 Gama (14) 10,4

198

-1,1 Gama 11,2

0,0 OCDE 7,2

0,2 COE 7,5

0,3 L'Expansion 7,9

0,3 Bipec 7,6

0,4 CEE 7,2

0,7 OFCE 7,7

1,0 Ministère  
de l'Economie 6,1

1,3 Ipecode (15) 7,0

## Key:

1. (Annual averages in percentage)
2. Growth of GDP (in volume)
3. Consumer price increase
4. Projections made 1 year ago
5. L'EXPANSION
6. Achievement
7. OECD
8. BIPE [Economic Information and Forecasting Bureau]
9. COE [Economics Observation Center]
10. REXECO [Research Center for Expansion and Economics]
11. EEC
12. OFCE [expansion unknown]
13. Ministry of Economy
14. GAMA [expansion unknown]
15. IPECODE [expansion unknown]

Last year, when we announced a zero growth for France, we were isolated but not very far from the reality measured 1 year later (the same is true for the price hikes). For 1984, the various projections have an identical distribution... around zero.



franc, as was the case in 1975-1976 and 1981-1982. For lack of a supply therapy, anyone who says recovery says relapse! Furthermore, this relapse could well be magnified by the slowing down, if not the abortion, of the world recovery under the shock of an international financial crisis in 1985-1986. It would not be very judicious timing on the eve of the major elections of 1986.

### Third Ranked in the World... for Indebtedness

But the return to a balanced balance of trade alone would be misleading for another reason. All those consecutive years of deficit have set an implacable mechanism into motion, which we tried to demonstrate in Table 3 above: it involves foreign debts, the service costs of which become cumulatively heavier. The payment of interest on the debt has resulted in the disappearance of the traditional surplus of invisibles and the repayment costs cause an imbalance in capital movements (the most important due dates will come after... 1988). One notes that, even if the balance of payments is balanced in 1984, as we expect, France's debt will increase by about another 50 billion francs, that is to say by approximately 10 percent as it is estimated at 500 billion francs, or \$60 billion: that is the third largest in the world... after those of Brazil and Mexico. To stabilize it, it will be necessary to post a zero on the loan line (net repayment figures): it is only under this condition that we will stop the growth of indebtedness the cost of which keeps getting bigger. This is what we have assumed for 1986. But what is the corresponding price? A surplus of about 40 to 50 billion francs will have to appear in foreign trade: this implies that the restrictive policy will have to be pursued for another 2 years beyond 1984. Since we do not know whether the regulation will be relaxed this year, this is highly improbable.

Hence, after the lull of 1984 new tempests will arise. And whatever their sacrifices, the future of the French will not cease to be mortgaged in the very near future.

### Major Industries in 1984

Paris L'EXPANSION in French 6 Jan 84 pp 61-66

[Article by Alain Murcier, Herve Jannic, Michel Herblay, Remy Dessarts, Francois De Witt, Roger Alexandre and Chantal Bialobos: "Purge in all Sectors"]

[Text] According to our annual survey of the sectors, 1984 is shaping up as between "poor" and "bad." A single industry remained dynamic throughout the crisis, and continued to hire: the aeronautics industry. It is in turn joining the ranks and will reduce its manpower, like all the others. The turnaround is also complete in a sector which had thus far been spared by the recession: trade. It fired its last shot with the recovery of "mass consumption," and is also expected to stop creating jobs. Will the sectors located upstream fare any better?

Table 5. Sectoral Overview.

Classified according to EXPECTED ACTIVITY in 1984 (in percentage)	Balance 1983		Projections 1984		
	Production (in volume)	Evaluation for the year	Production (in volume)	Manpower (in trends)	Evaluation for the year
Chemical Industry .....	-3.8	rather good, but very bad for finan- cial results	+4	--	poor
Paper-Cardboard .....	+2.5	rather good	+1	--	rather good
Electrical Construction .....	0	poor	+1	--	poor
Agriculture .....	-4	poor	+1	--	poor
Transportation: Road .....	-4	bad	0	=	poor
SNCF .....	-5(goods) +2(passengers)	rather good bad	0	=	poor
Distribution .....	0	bad	0	--	bad
Non-ferrous metals .....	-3	poor	0	--	poor
Automobiles .....	-7(trucks) +6(cars)	poor	0 to -2	--	poor
Textiles .....	+2.5	poor	-1	--	poor
(Cotton) .....	-1	poor	-2	--	poor
(Artificial & synthetic textiles) .....	-4	poor	0	--	poor
Iron and Steel .....	-7	very bad	-2	--	bad
Mechanical engineering .....	-3	bad	-3	--	bad
MTPS[expansion unknown] ..	-11	very bad	-5	--	bad
Energy .....	-9.5(oil) 0 (CDF)	very bad (CDF)* bad (oil)	-10(CDF) 0 (oil)	-(CDF) -(oil)	very bad(CDF, oil), bad (GDF),
	+7.5 (EDF)**	poor(EDF, GDF***)	+ (EDF)	+ (EDF)	poor (EDF)
Construction .....	-4	very bad	-4	--	very bad
Aeronautics .....	+2	poor	-5	--	bad
Public Works .....	-5	bad	-6	--	bad
Shipbuilding .....	-10	very bad	-15	--	very bad

\* CDF [French Coal Mines]

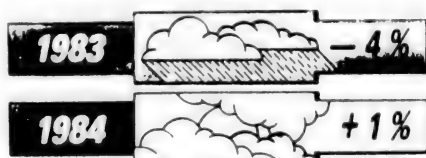
\*\* EDF [French Electric Power Company]

\*\*\* GDF [French Gas Company]

The recovery abroad will be able to compensate for the depression of domestic demand. As for intermediary goods, the replenishing of inventories in our neighboring countries will stimulate specifically the chemical industry and the paper-cardboard industry, and will put the textile industry and the non-ferrous metals industry back on their feet again. But often, the production level has fallen so low (sometimes lower than in 1970, as is demonstrated in our sector tables) that a slight increase in volume will not prevent a worsening of the financial situation. In any case, the industries stricken in this regard are also those where recession is continuing: steel, shipbuilding and machine construction, building trade and public works... They will require a painful "restructuring."

AGRICULTURE: Tragedy if Brussels Stops Payments (by Alain Murcier)

Figure 1. Activity trend (in percentage)



This year, agricultural production may well feel the effects of an effective drop in purchasing power, which has so far been registered only on paper; it may also suffer from the limitation of some production resulting from the EEC's inability to find a different solution to its financial problem. In the field, following a year during which the climate was poor overall -- which made it possible to maintain deliveries only by drawing out of stocks --, the fodder reserves which were built up abundantly lead one to expect an increase in milk production. There will be a problem if the EEC turns down the financial resources to sell the surplus. The foreign trade of agricultural foodstuffs as a whole, the surplus of which (50 billion francs) nearly reached the record of 1981 last year, could feel the effects of that. The recovery of agricultural income, the real value of which dropped 3.8 percent per unit in 1983, causing a continued decline in the number of enterprises, is not expected. Investments will stagnate; and yet, their past decline has been clearly less than in industry. Moreover, it is hard to distinguish the share of really productive investments in this mass. Hence, we do not know the size of the handicap affecting the future because of the inadequacy of these investments.

Table 6. Agricultural Production.

(en millions de tonnes) (1)	Blé (3)	Orge (4)	Maïs (5)	Betteraves (6)	Vin (7) (1) *	Lait (8) (1) *	Boeuf (9)	Porc (10)	(Eufs) (11)	(12) Poules et poulets
Moyenne (2) 1964-1965-1966	9,6	3,7	2,1	12,8	63	149	1,0	1,1	0,50	0,46
1982	24,7	10,4	10,4	32,3	79,7	248	1,5	1,3	0,95	0,97
1983 *	24,2	8,9	9,9	24,2	70,2	252	1,5	1,3	0,90	0,89

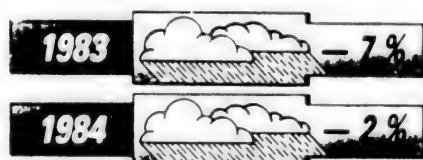
\* In millions of hectoliters.

Key:

- |                        |                       |
|------------------------|-----------------------|
| 1. In millions of tons | 7. Wine               |
| 2. Average             | 8. Milk               |
| 3. Wheat               | 9. Beef               |
| 4. Barley              | 10. Porc              |
| 5. Corn                | 11. Eggs              |
| 6. Beets               | 12. Hens and chickens |

STEEL INDUSTRY: Let us not Count too much on Exports (by Herve Jannic)

Figure 2. Activity trend (in percentage)



According to the experts in the sector, who had described 1983 as a very bad year, 1984 should be "only" a bad year. Will this -- relative -- optimism be justified by the facts? Yes, if the drop in demand is finally checked (in which case production would remain on the order of 17.5 million tons, or a volume corresponding to that of the early sixties). No, if the difficulties of the major steel clients (automobile, mechanical engineering, construction, shipbuilding) continue to worsen, a possibility which unfortunately seems the most likely. But little improvement is to be expected from foreign orders: the recovery in the FRG and in Great Britain will primarily benefit the local steel plants; and the United States will barricade itself more and more. Other handicaps -- not new ones, alas! -- of the sector in 1984: barely lucrative prices, excessive manpower and dramatically high financial debts.

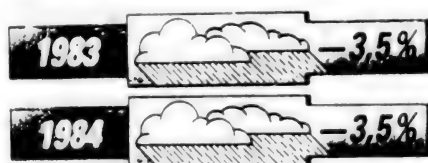
Table 7. Steel Production.

<u>Production</u> (in millions of tons)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Raw Steel	23.8	23.2	18.4	17.5
High-grade and special steel	2.7	3.1	2.6	2.2

\* Estimates

ENERGY: Savings Lode not Exhausted (by Alain Murcier)

Figure 3. Activity trend (in percentage)



If economic production as a whole does not exceed last year's, one should expect a new and strong reduction of 3.5 percent in French energy consumption. As a result, the level of national energy dependence will be lowered even more, as well as the oil bill, assuming that the dollar stops going up and that the Gulf war does not interrupt the evolution toward a reduction in the price of crude oil. Compared to these expected improvements, there are the economic, financial and social costs of the excess of energy: an underdeveloped nuclear potential (even if, for the first time in 1983, nuclear energy was ranked as the second primary source in our table), this year's expected 10 percent drop in coal production following 2 years of lyrical illusions, the quasi-stagnation of gas sales (plus 1.1 percent), the continued decline of oil (minus 4 percent to minus 6 percent), worsened by the drop in profitability of the refineries... which leads, perversely, to more and more imports of manufactured products, which are expensive in terms of foreign currency. A return to a saner price policy (in terms of oil, the implementation of the "formula" during the first half of 1983 had dried up the company losses) and less vague competitive rules among the various energy sources alone would limit the severe damage which the formerly flourishing French energy industry continues to suffer.

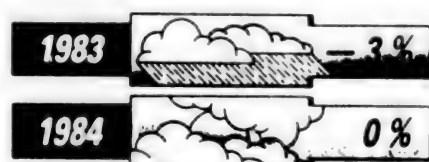
Table 8. Consumption of Primary Sources.

<u>Consumption</u> (in millions of tons- oil equivalent)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Solid mineral fuels	39.4	34.4	32.5	27.5
Hydroelectricity	12.9	16.0	15.0	14.5
Nuclear electricity	1.2	12.9	22.9	28.0
Natural gas	10.1	23.6	20.4	21.5
Oil	90.4	101.7	85.3	81.0
New energies	----	3.2	3.6	3.8
TOTAL	154.0	191.7	179.7	176.3

\* Estimates

# NON-FERROUS METALS: Rise of Prices... and Profits (by Michel Herblay)

Figure 4. Activity trend (in percentage)



Without doing well, the non-ferrous metals are doing better: the financial situation of the enterprises is improving in spite of a new, slight decline in activity in 1983. For 1984, the professionals expect a general stagnation. There is no lack of confidence in aluminum, zinc and nickel, as the rates went up during the 1983 budgetary year... less thanks to the economic recovery than to a more rigorous management of the means of production. When you remove the excess capacity from the market, the business climate improves: the transformation will continue in 1984.

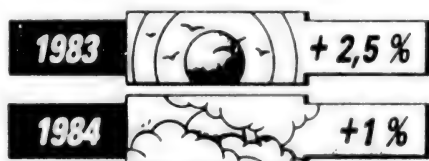
Table 9. Production of non-ferrous metals.

Production (in millions of tons)	1970	1980	1982	1983*
Metal production (raw metals)	1021	1180	1100	1059
First transformation (semi-products)	868	1184	1177	1147
Aluminum:				
.metal production	468	602	544	531
.first transforma- tion	295	474	509	634
Copper:				
.metal production	57	63	59	55
.first transforma- tion	464	571	526	477

\* Estimates

# PAPER-CARDBOARD INDUSTRY: Everything Hinges on Competitiveness (by Remy Dessarts)

Figure 5. Activity trend (in percentage)





In 1984, this industry will be satisfied to maintain activity at its 1983 level. Last year, production was stimulated by advance purchases (price increase of raw materials and devaluation), and then by an export boom (plus 9 percent in volume), particularly toward the FRG. Simultaneously, the restructuring efforts made by the heavy printing industry (photo-engraving) allowed it to better capture the markets. The good standing of exports should continue through the first half of 1984 and will compensate for the weakening of domestic demand (with the exception of computer paper and packaging for agricultural foodstuffs).

Beyond this, a slight recovery of the French market is hoped for, but exports could be closed down by the erosion of competitiveness and by a slowdown in international demand.

The slight margin improvement which occurred in 1983 is likely to be ended (increase of the price of paper pulp and price control), which will compromise the necessary modernization investments. Furthermore, the industrialists fear that the financial resources of the Paper plan will be completely swallowed up in the rescue of Chapelle-Darblay.

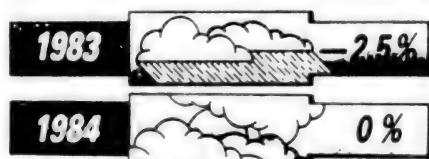
Table 10. Paper-Cardboard Production.

<u>Production</u> (in millions of tons)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Production as a whole	4.1	5.2	5.1	5.3

\* Estimates

TEXTILES: Production Machinery in Better Shape (by Francois De Witt)

Figure 6. Activity trend (in percentage)



Following the 1981-1982 recovery and the decline in social expenses (abandoned at the request of Brussels), the textile industry is taking on the colors of austerity. Having already decreased by 2 percent in 1983, French consumption should go down as much again this year. But in 1983, thanks to the Investment-Employment plan, the volume of investments rose by 10 percent. The production machinery is in a better shape. And then, that same year, exports rose by 3 percent... they will probably do better yet in 1984. Foreign markets already represent 43 percent of the outlets. The enterprises will thus be able to compensate for the reduction of their margins in France, following upon the price structure which has once again become their main worry, if only because of the strong hike (25 percent in 1983) in the cost

of raw materials. Overall, production should experience a more limited decrease than in 1983, which will however lead to new manpower cutbacks. But, for the first time in 30 years, there is a chance that the penetration ratio for imports (stabilized in 1983 at 52 percent of consumption) will decrease.

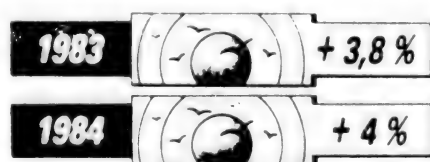
Table 11. Textile Production.

<u>Production</u> (in average yearly index)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Production as a whole	100	100	94	91
Artificial and synthetic textiles	100	88	81	78
Wool industry	100	99	86	81
Cotton and flax industry	100	88	80	78

\* Estimates

CHEMICAL INDUSTRY: Chemists Recover Resilience (by Francois De Witt)

Figure 7. Activity trend (in percentage)



While a drop in chemical production was expected following the austerity plan, the replenishing of inventories abroad has provided unexpected support, specifically to the producers of intermediary goods, such as base plastics. It remains to be seen whether the essential part of the recovery is not over. It is not certain. First, the inventories only returned to their early 1982 level. And then, the prices are going up. Under those circumstances, if the European recovery is confirmed, we will witness precautionary purchases. Hence, 1984 should not be as poor as the professionals predict. It may even be excellent for specialty chemicals and pharmaceuticals. In terms of the latter, the large French laboratories -- Sanghi, Synthelabo, Roussel-Ucla, Rhone-Poulenc Santi -- achieved a spectacular breakthrough on the foreign markets in 1983, specifically the United States and Japan, thanks to a weak franc and the introduction of new specialties.

The problem sector remains that of the base chemicals (petroleum derivatives). The strengthening of the prices and of demand and -- at Elf-Acquitaine -- the drop in production capacity have made it possible to limit losses. On the other hand, CDF-Chemicals is the last chronically ill company in the European chemical industry.

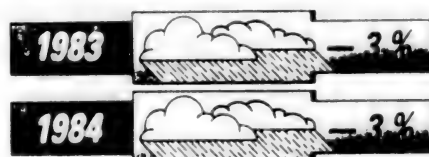
Table 12. Chemical Production.

<u>Production</u> (in average yearly index)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Production as a whole	100	162.0	162.8	169.0
Inorganic Chemicals	100	119.4	110.2	112.0
Organic Chemicals	100	173.6	172.2	183.9
Para-chemicals	100	142.7	145.2	145.6
Pharmaceuticals	100	206.8	225.6	239.1

\* Estimates

MECHANICAL ENGINEERING: Catastrophic New Year (by Remy Dessarts)

Figure 8. Activity trend (in percentage)



Another catastrophic year in prospect for mechanical engineering. All categories expect new declines: minus 3.5 percent (in volume) for machinery, minus 2.3 percent for metalworking, minus 2 percent for precision instruments and minus 1.5 percent for agricultural equipment. The domestic market will not pick up again. On the contrary, this sector fears an erosion of investments, including those in the nationalized sector. In turn, subcontracting will suffer from the difficulties experienced by the large client industries, such as the automobile and aeronautics industries.

On the other hand, a new drop in exports (minus 5 percent in volume) is expected. True, the recovery of the economies of the OECD will trigger a business current which could represent a 5 percent increase in some countries, with recapturing of parts of the market. But business looks very bad with the Middle East, Africa and Eastern Europe. Suddenly, the margins will erode even further, which will weaken chronically ill companies such as Poclain and Creusot-Loire. New disappearances of enterprises as well as manpower reductions are to be feared.

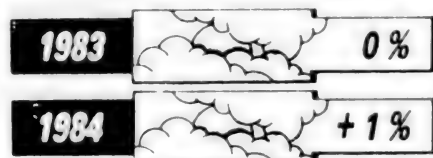
Table 13. Production in the mechanical engineering sector.

<u>Production</u>	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Production as a whole (in index of volume)	100	122.3	119.2	115.5
MTPS	100	106.0	104.0	93.0

\* Estimates

## ELECTRICAL CONSTRUCTION: Growth Without Hiring (by Michel Herblay)

Figure 9. Activity trend (in percentage)



The small growth expected for 1984 will not be able to prevent a new reduction of manpower, following the 2 to 3 percent reduction recorded in 1983. The medium term assessments are not optimistic, with a 3 percent growth per year, but without hiring; on the contrary, even with this improved prospect, manpower reductions are expected to continue at the rate of 1 percent per year. The new factor, for an electrical construction industry particularly geared toward the production of equipment, is the decline of orders from the oil producing countries and from the Third World in general. But the drop in the real prices of oil and the austerity imposed on those countries whose indebtedness is too high, will still have an effect in 1984. Conversely, the recovery of several industrialized economies will facilitate exports to the United States, the FRG, Great Britain, without however reversing the general trend toward mediocrity, which industrialists of this sector complain about. The demand for consumer products itself will remain in regression, in spite of the new appliances which have appeared on the market, but whose vogue will not compensate for the drop in purchasing power.

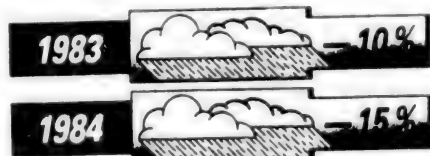
Table 14. Production of Electrical Equipment and Appliances.

<u>Production</u> (in average yearly index)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Production as a whole	100	187	195	196
Equipment	100	175	179	179
Intermediary goods	100	234	256	269
Consumer goods	100	191	203	198

\* Estimates

## SHIPBUILDING: Every Man for Himself (by Roger Alexandre)

Figure 10. Activity trend (in percentage)



Every time it thinks it has reached the bottom, the shipbuilding industry goes down even further: 1984 will be worse than the disastrous 1983 accounting period, and now the survival of this industry is at stake. Working already at 50 percent of capacity, it recorded only four orders during the past accounting period and finds itself with a 23 percent reduction in its orders; the slight recovery of world orders (plus 5.7 percent) benefits primarily South Korea and Japan, in a climate of fierce price competition, the level of which is getting dramatically low for the Western shipyards. Of the two French groups which were restructured in 1983, one (the private Normed company) has just avoided bankruptcy thanks to a credit arrangement from the government; the other (the shipyards of the West, nationalized) foresees interruptions in the summer. Already, the new expected reduction of the production capacity (from 25 to 30 percent) seems inadequate if orders do not come up quickly. And the state, which will have granted more than 2 billion francs in aid in 1983, seems to reject further spending for this disaster stricken industry.

Table 15. Ship Production.

<u>Production</u> (in thousands of tons)	<u>1975</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Placed on the slips plus deliveries divided by two	750	347	358	317

\* Estimates

AERONAUTICS: Its Turn for Recession (by Herve Jannic)

Figure 11. Activity trend (in percentage)



Following a virtually uninterrupted growth since the war, aeronautic construction will in turn be touched by the crisis in 1984. The demand for civilian aircraft -- airliners (Airbus Industry), business planes (Dassault), and helicopters (AEROSPATIALE [National Industrial Aerospace Company]) -- will continue to stagnate at a very low level, and may even drop further. Next, a new factor, military aircraft will suffer seriously from the reduction of the defense budgets, both French and foreign, as well as from the increased competition from Great Britain and the United States. The effects of these negative elements, which have been noted for 2 years at the level of order books, will be felt this year in the area of activity. The consequences for profitability will be all the more serious as there is obviously a surplus of manpower today, which has been growing constantly since 1977, but which will be difficult to reduce because almost all the enterprises in this sector are nationalized.



Table 16. Activity in the Aeronautics Sector.

Activity (in millions of francs)	1970	1980	1982	1983*
Turnover	7,434	35,173	51,336	55,000
Foreign Orders	5,507	27,000	44,380	40,000

AUTOMOBILE INDUSTRY: Pinched in Terms of Prices and Manpower (by Herve Jarnic)

Figure 12. Activity trend (in percentage)



The year is shaping up to be a poor one for the automobile industry. On the domestic market one should expect a drop in demand following upon the contraction of purchasing power which will not be compensated, as it was last year, by the attraction of new models such as the BX, the 205 and the R11. In 1984, with the exception of the launching of the R25 (which, as a matter of fact, concerns only a limited public in the top income range), no psychological phenomenon will put a stop to the decline in registrations which some experts estimate at minus 5 percent. Furthermore, foreign penetration will remain high, on the order of 33 percent. Handicapped by the low level of activity, the manufacturers will also be handicapped by that of the margins as prices will remain strictly regulated. The only valve which may work (and perhaps not even that!) is the contraction of manpower. But it is possible to catch up in terms of exports because, aside from Italy, the market in Europe is taking off again, specifically in the FRG and England, thanks to the recovery of real income -- and to a strong decline in the savings rate. Even then French cars will have trouble remaining competitive, which is due simultaneously to an inflation differential which will not be reduced and social costs which are hard to limit. This is why the manufacturers would not be hostile to a monetary "adjustment"...

As for commercial vehicles, the situation will continue to deteriorate because competition will be more and more intense on a market which is desperately quiet; as a matter of fact, the discounts it imposes positively erode the margins.

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\* Estimates

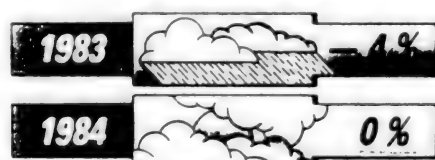
Table 17. Automobile Production and Registrations.

<u>Production, Registrations</u> (in thousands)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Private vehicles				
Production	2,458	2,929	2,777	2,940
Exports	1,394	1,530	1,464	1,600
Registrations	1,296	1,873	2,056	2,000
Foreign makes	310	428	629	646
Commercial vehicles (above 5 tons)				
Production	56	60	44	41
Exports	15	34	21	20
Registrations	51	45	44	43
Foreign makes	14	19	19	20

\* Estimates

TRANSPORTATION: Planes Resist the Crisis (by Roger Alexandre)

Figure 13. Activity trend (in percentage)



For lack of recovery in the economy's engine, the carriers of goods do not expect to get on their feet again in 1984, and a level stretch would already bring them some relief, following the drop in activity recorded in 1983 (minus 6 percent). The truck drivers are worried about the weakness of demand and even more about the price regulations which will be applied to them in 1984 and which very likely will be unrelated to the increase in their social costs (wage costs rose by 16 percent in 1983). At the SNCF they hope to put a brake on the ceaseless tumbling down of trade (still minus 5 percent in 1983) through a more active trade policy, but the railroad men are still drowning in their monstrous indebtedness problems (65 billion francs in 1983). As for the waterways, they are running deeper and deeper (minus 8 percent in 1983), without any hope of bailing out on the horizon.

Passenger transportation, which had so far clearly resisted better, is also headed for stagnation or barely any better, by road as well as by rail (plus 2 percent in 1983). Exception: domestic air transportation, which could increase another 6 percent, following a surprising hike -- more than 7 percent -- in 1983.

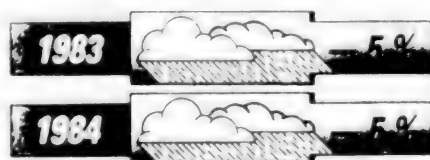
Table 18. Transportation in France.

<u>Transported Merchandise 1970</u> (in billions of tons/kilometers)	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Road	59.4	97.9	85.3
Water	14.2	12.2	10.2
SNCF	70.4	69.5	61.2
SNCF (in billions of passengers/kilometers)	41.0	54.5	56.8
Air traffic (in millions of passengers)	19.6	44.3	51.9

\* Estimates

BUILDING TRADE AND PUBLIC WORKS: Disaster Getting Worse (by Michel Herblay)

Figure 14. Activity trend (in percentage)



The building trade predicts a 4 to 5 percent drop in activity for the new year, which will come on top of the 4 percent drop recorded in 1983; manpower will go down further, following a 6.2 percent job loss in 1983. Public works are floundering in turn: the volume of their works will go down 5 to 8 percent, following a 5.5 percent reduction in 1983. As for manpower, having lost nearly 25,000 jobs last year, it will melt again by 5 to 8 percent.

The explanations, and thus the claims, do not vary much at all. The lack of funds of the candidates for housing, both in terms of renting and home ownership, the level of the interest rates, the reduced investments in public and industrial buildings remain cruel realities. Another original argument is advanced by the professionals: the climate of disinflation which the minister of finance is striving to create, is beginning to have negative effects on the stone industry. This industry, which lives solely on credit, loathes the idea of real interest rates becoming positive.

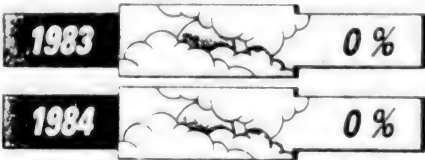
Table 19. Construction (private and public) in France.

<u>Construction</u> (in thousands)	<u>1970</u>	<u>1980</u>	<u>1982</u>	<u>1983*</u>
Housing units under construction	482	400	343	335
Completed housing units	456	378	363	320
Kilometers of expressways put in service	258	355	219	168

\* Estimates

DISTRIBUTION: Commerce Takes on Austerity (by Chantal Bialobos)

Figure 15. Activity trend (in percentage)



Distribution has been hit twice by the slowdown of demand and the pinching of the margins. Even shopping centers will have to get used to progress at a rate close to the inflation rate. With costs climbing more rapidly than inflation, profits show a drop of 25 percent. All the more so since the opening of new areas has been decelerated (21 shopping centers and 460 supermarkets), as the distributors showed caution following the sharp check of the recovery policy. So everyone is doing his utmost, if not to increase his share, at least to keep it. Hence, the onslaught of "publicity campaigns" by the big distributors in late 1983. Consumption is concentrated on essentials, but also on escape (leisure), to the detriment of household equipment (furniture, household appliances), the volume of which is declining. No trend reversal should occur before the second half of 1984. However, the National Shopping Centers Group is counting on an acceleration of investments, following the pause of 1983. Similarly, the supermarkets expect to have 582 openings.

Table 20. Distribution in France.

Turnover (in billions of francs)	1970	1980	1982	1983*
Retail trade as a whole	217	768	991	1,063
Large distributors	58	246	334	363

\* Estimates

Small, Large Businesses Compared

Paris L'EXPANSION in French 6 Jan 84 pp 67-71

[Article by Jean-Joel Gurviev: "A Limping Economy -- Small Enterprises Doing Better than Large Ones"]

[Text] Austerity remains on the agenda for 1984: this year the enterprises, like the state, will continue to tighten the bolts.

For our first survey of a representative panel of all the French enterprises, one must admit that the responses describe a rather gray future: pressure on wages reduction of manpower... The leaders questioned forecast a year 1984 rather worse in this regard than 1983.

Table 21. Projections by the Enterprises.

<b>Activité (1)</b>	<b>(2) Estimations 1983</b>	<b>(3) Prévisions 1984</b>
<b>PMI (4)</b> (moins de 1 000 personnes) (5)	<b>+ 3,5 %</b>	<b>+ 3,5 %</b>
<b>Grandes entreprises industrielles (6)</b> de 1 000 à 5 000 personnes (7)	<b>+ 1,5 %</b>	<b>+ 2 %</b>
plus de 5 000 personnes (8)	<b>0 %</b>	<b>+ 1 %</b>
<b>Commerce et services (9)</b> (banques exclues) (10)	<b>+ 4,5 %</b>	<b>+ 3,5 %</b>
<b>Prix à la production (11)</b>	<b>+ 8 %</b>	<b>+ 5,5 %</b>
<b>Salaires (12)</b>	<b>+ 8,5 %</b>	<b>+ 5,8 %</b>

This table summarizes the median projections of the panel: when the PMI announced a growth (in volume) of 3.5 percent, half of them expected more, half of them less.

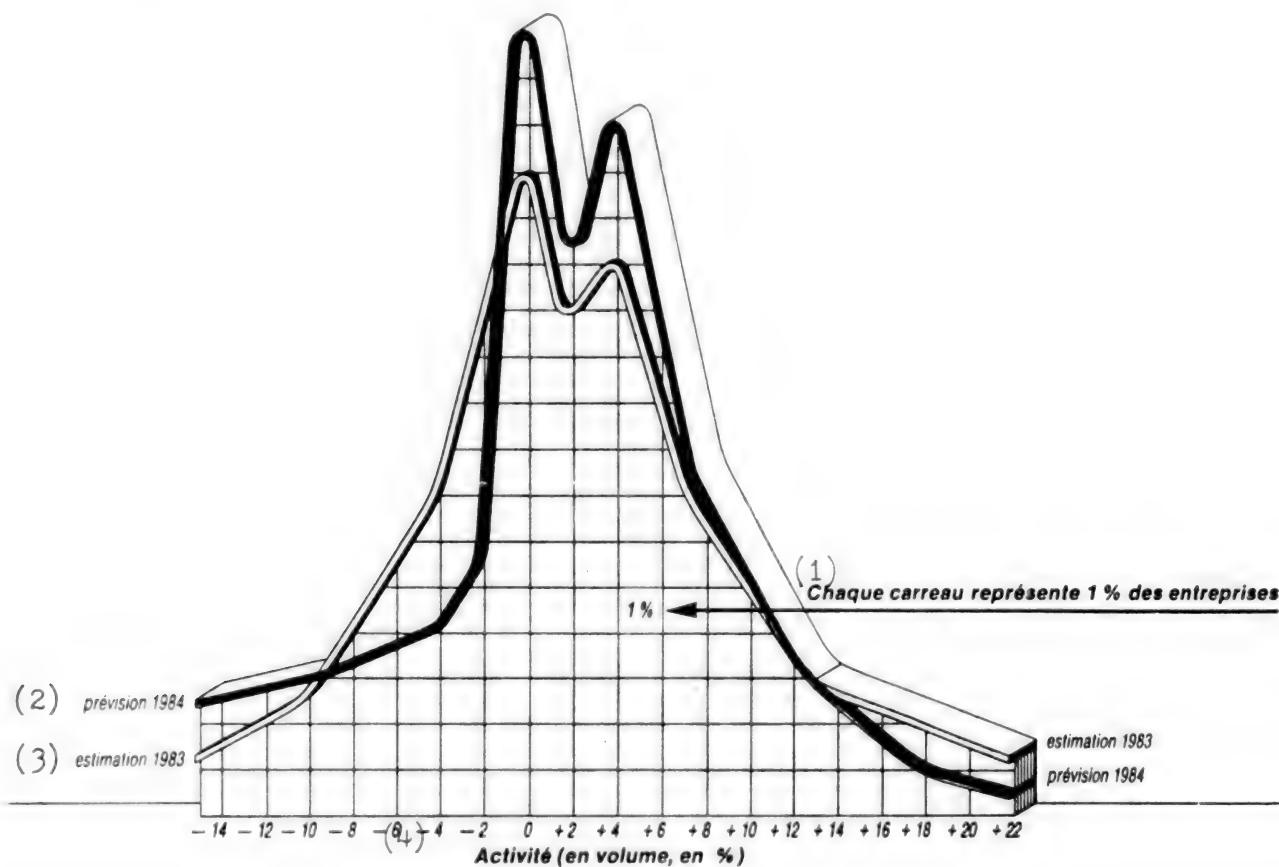
Key:

1. Activity
2. Estimates
3. Projections
4. PMI [Small and medium sized industries]
5. Less than 1,000 people
6. Large industrial enterprises
7. From 1,000 to 5,000 people
8. More than 5,000 people
9. Trade and Services
10. Banks excluded
11. Production Price
12. Wages

True, they think, activity will resist. In industry they even expect a slight recovery. The exporters (luxury items, cosmetics, food products) exhibit a definite optimism. The awareness of a recovery abroad is making its way.

A relative optimism, however. In 1983, 50 percent of the large industrial groups, employing more than 5,000 persons recorded a drop or stagnation of their production. The heavyweights forecast a 1 percent growth in 1984; that is better than last year (zero percent), but it will not be sufficient to get out of the rut.

Graph 7. Some Steadiness in Business.



This graph illustrates a distribution: each of the curves defines an area representing the activity projections of the enterprises. In 1983, 39 percent of them (or 39 squares on our graph) are located on the left of the 0 percent vertical line, and have thus recorded a regression. This number is down to 35 percent in 1984. The 1984 curve has shifted slightly to the right compared to the 1983 curve, which conveys a certain steadiness in business.

- Key:
1. Each square represents 1 percent of the enterprises
  2. 1984 projections
  3. 1983 estimates
  4. Activity (in volume, in percentage)



More worrisome: numerous enterprises which have so far been walking on a tightrope (oil companies, PME's in the building trade, in textiles, in the metallurgical industry and mechanical engineering) will swell the ranks of the ailing plunged into the recession, while the club of those overly endowed with growth (more than 15 percent in volume per year) will lose a few of its champions. In trade and especially services, people are worried about the slowdown of consumption: the activity growth projections are falling by 1 percent (plus 3.5 percent as against plus 4.5 percent). Some large distributors are even predicting a recession. The candidates for growth can no longer be found anywhere but in electronics, the food industry, pharmaceuticals, cosmetics, some services (tourism, catering, data processing and management advice...), and primarily among the PME's.

Graph 7 shows the distribution of responses by the enterprises to our question about growth. In 1983 as in 1984, the result is a "camel's back" which illustrates an economy with two speeds. The first hump is based on zero growth: it represents all the enterprises whose activity is stagnating or regressing; it concerns primarily large enterprises. The second hump culminates at 4 percent: it groups the best performing enterprises, the majority of which are PME's. This is a well known phenomenon: the growth rate is inversely proportional to size. Small is beautiful!

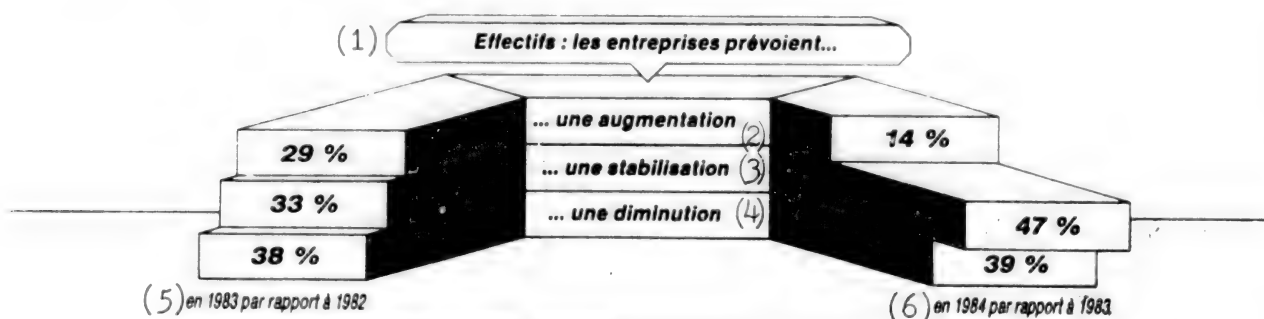
Unfortunately, the good behavior of the small firms does not prevent employment from declining. In 1983 it was already not outstanding; in 1984 it will be worse: 39 percent of the enterprises (as many as last year) will reduce their manpower, and only 14 percent (half as many as in 1983) will increase it. The projections from the industrial groups which employ more than 5,000 individuals give one the shivers: 63 percent of them (as against 60 percent in 1983) announce a trimming, and 2 percent -- yes, 1 out of every 50 enterprises -- are considering an increase (as against 17 percent). Dark omen: there will be other Poissy's... Even the trade and services enterprises, the only ones which are still creating jobs, are pessimistic: 42 percent of them increased their manpower last year; there will be only 32 percent in 1984.

Excessive manpower, weak competitiveness. The diagnosis is not a new one. This time, the industrialists seem determined to take action to remedy this. Those who have announced a purge for 1984 are indeed those whose results were very bad in 1983. And they are numerous. In our sample, one out of every five enterprises closed its last accounting period in the red. More than one in three if we limit ourselves to the heavyweights in industry (more than 5,000 people).

The general contraction of manpower should logically lead to an improvement of the results of the enterprises in 1984 (because there will be no collapse of activity). This is what all the large groups, specifically the nationalized ones, hope for, with a few exceptions. It is true that it is easier to reduce a deficit than to increase a benefit. Specifically, if you consider only those enterprises whose net margin exceeded 1 percent in 1983, you notice that the bosses do not particularly expect to increase their profits: 30 percent of them foresee more in 1984; 30 percent fear less. Status quo. We could have hoped for better! One food products firm even provided the

following indications: 10 to 15 percent growth in volume, reduction of manpower, erosion of results. Explanation of these apparently contradictory forecasts by the person involved: excessive manpower, price controls.

Graph 8. Employment Will Suffer.



In 1984, the number of enterprises increasing their manpower will be half as many as in 1983. The giants in industry have announced a purge: 63 percent among them (as against 60 percent) expect a slimming down, and only 2 percent (as against 17 percent) an increase.

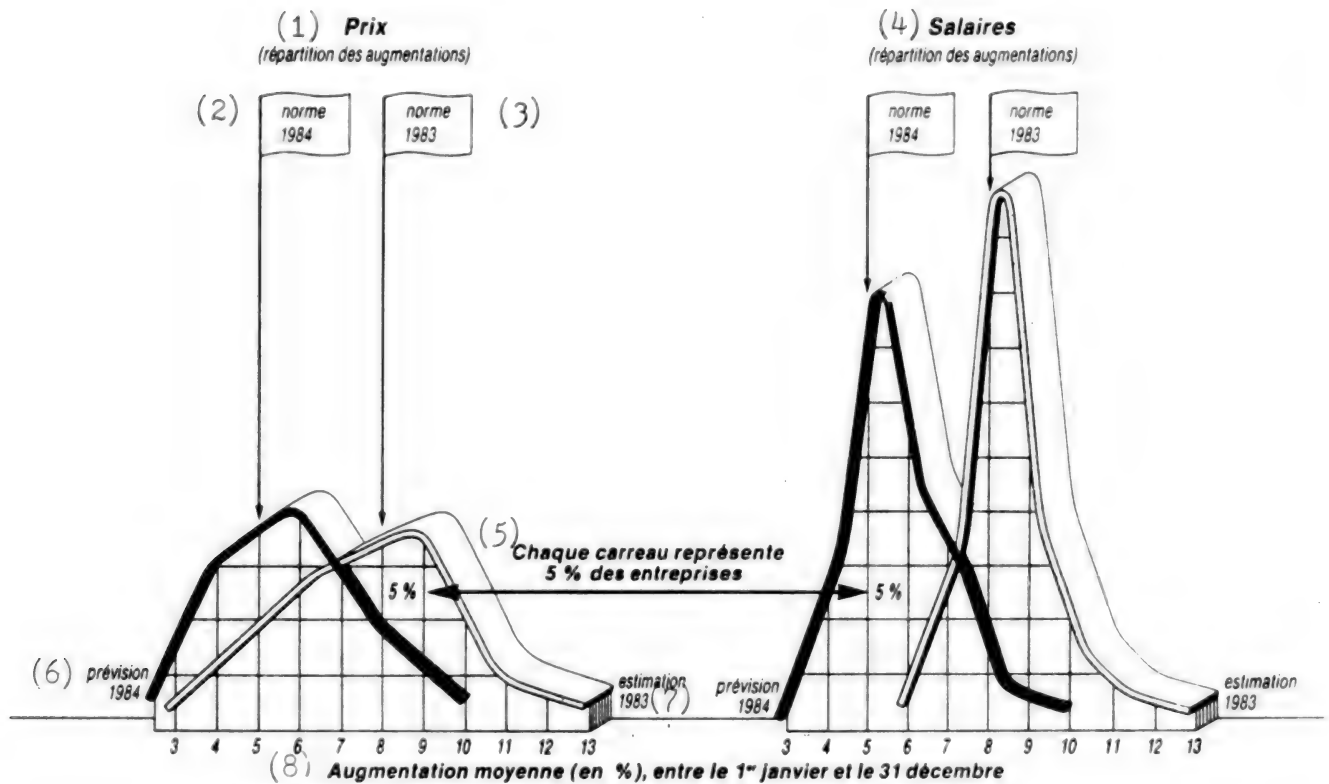
Key:

1. Manpower: the enterprises expect...
2. ... an increase
3. ... a stabilization
4. ... a decrease
5. In 1983 in relation to 1984
6. In 1984 in relation to 1983.

It is true that the bosses always express a "structural" pessimism when they are questioned about their results. The INSEE surveys prove this. But it is clear that the enterprises will not stick to the harsh price standards set for 1984 without scratching their margins.

But they generally intend to respect the orders. The disinflation is very clear: the enterprises questioned expect price and wage increases for 1984 2 to 3 points lower than those of 1983. A good result for Jacques Delors, even if the 5 percent wager has gotten a bad start. Indeed, if you only consider the industrial enterprises, the median of our sample is 8 percent in 1983 and 5.5 percent in 1984 (let us recall that this means production prices). Distribution and service enterprises in turn expect 9 percent in 1983 and 6.5 percent in 1984. That is a little less than Philippe Lefournier's estimate (see Table 2): 7.7 percent increase in the retail price next year. But our sample does not include a single PME with fewer than 100 workers, which leaves aside all the small shopkeepers and part of the services.

Graph 9. Delors Imposes his Standards.



Careful: it is the areas that count. If the graph on the right is "higher" than the one on the left, it does not mean that the wages are increasing more rapidly than the prices but rather that the expected wage hikes are drawn tighter around the average.

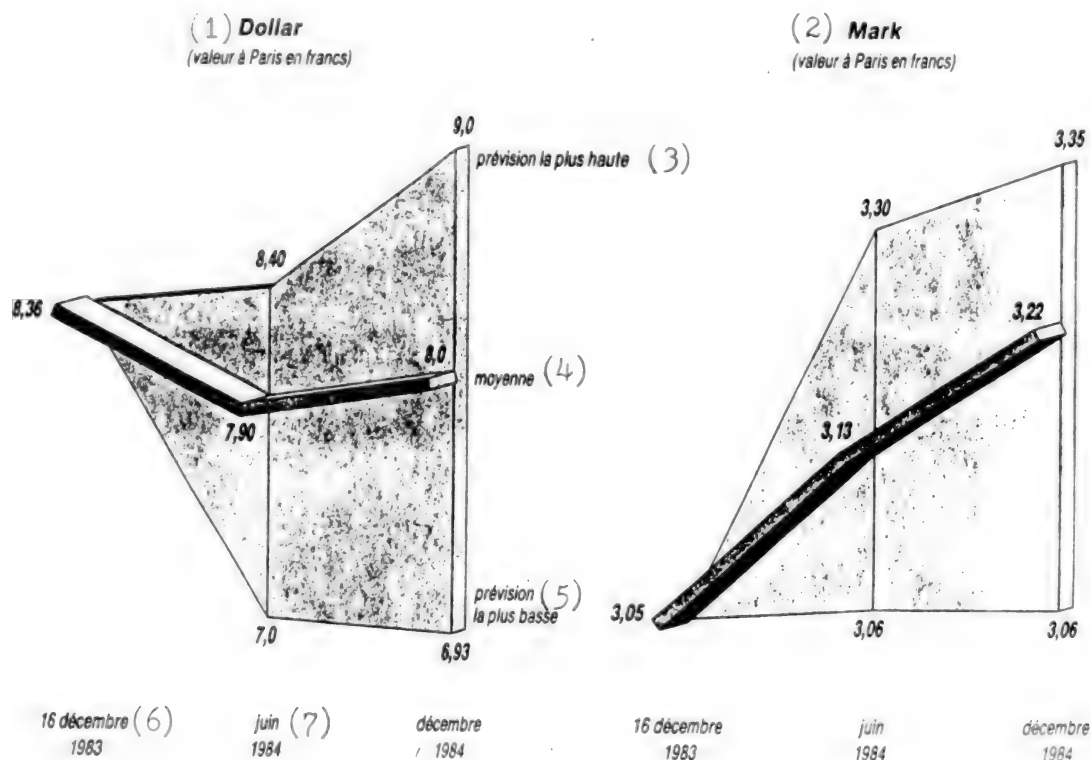
Key:

1. Prices (distribution of increases)
2. Standard 1984
3. Standard 1983
4. Wages (distribution of increases)
5. Each square represents 5 percent of the enterprises
6. Projection 1984
7. Estimate 1983
8. Average increase (in percentage), between 1 January and 1 December.

More spectacular is the generalized pressure on wages: plus 5.8 percent in 1984. Even though the bosses seem rather optimistic about the decline of inflation, this would mean a drop in purchasing power. However, the strict parallelism which has been announced between the wage and price increases reveals the reluctance of the company managers to break indexation. Graph 9 shows that the projections concerning wage hikes are very much concentrated around the average. Below 5 percent in 1984: here are a few companies for

which all the distress signals have been lit: activity, results and manpower in free fall. Only the enterprises performing well (especially PME's) have announced increases above 8 percent.

Graph 10. Projections by the Bankers.



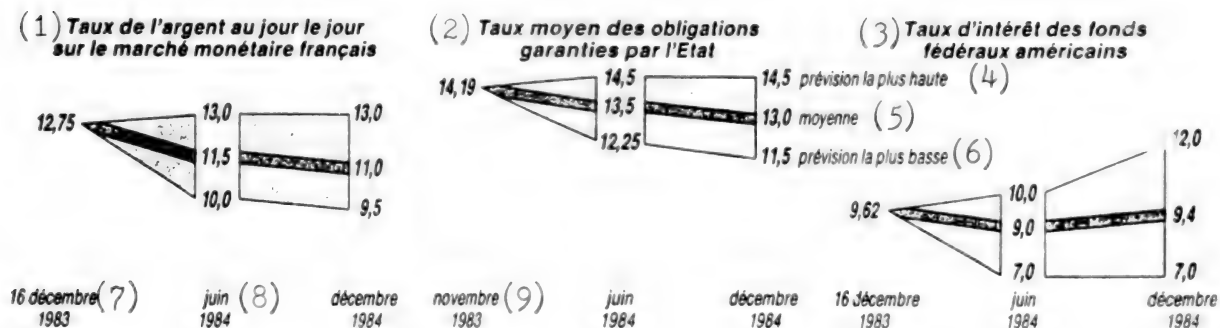
The 25 bank managers included in our panel were questioned on the monetary and financial situation. Overall their projections are disquieting: the franc will weaken before the mark; the dollar will remain at a high level.

Key:

1. Dollar (value in Paris in francs)
2. Mark (value in Paris in francs)
3. Highest projection
4. Average
5. Lowest projection
6. December
7. June

In some cases, the 1984 projection takes a breathtaking plunge when compared to the 1983 estimate: up to 5 points of deceleration in wage hikes. If we stick to those figures (which, very often, are only intentions), the possible strength of inflation next year will not be the result of a shift in wages.

Graph 11. Money Will Still Be Expensive.



All the bankers, or nearly all of them, expect a drop in the interest rate in France, but only of 1 to 2 points, which shows their pessimism concerning the decline of inflation. And they think that the interest rates in the United States will remain at their current level.

Key:

1. Day to day money rate on French money market
2. Average rate of government guaranteed bonds
3. Interest rate of the American federal funds
4. Highest projection
5. Average
6. Lowest projection
7. December
8. June
9. November

On the other hand, the enterprises will have to carry even heavier financial costs. That is the opinion of the 25 bankers on our panel whom we questioned about the financial and monetary situation. In 1984 the interest rates will go down, they said, but not as much as one might have expected even 6 months ago (see Graph 11). The bankers are very pessimistic about our currency. They set the mark at 3.13 francs during the second half of 1984 (which represents its ceiling rate within the European Monetary System) and at 3.22 francs by December. In other words, according to them there will be devaluation -- or an exodus -- of the franc before the end of the year. Explanation given by one of the experts we consulted: "The inflation differential will persist."

And yet, opinions are divided: 9 bankers out of 25 believe rather, as does Philippe Lefournier (see above), that the franc will resist. Same uncertainty about the evolution of the dollar and of the interest rate in the United States. But overall, our experts do not believe in the weakening of either of them. One of them suggested the figure of 8.50 francs for the dollar by the end of 1984 and added this comment, which translates the perplexity of his colleagues well: "If Reagan is reelected... Otherwise?"

## TALBOT SEEN AS UNEMPLOYMENT TEST CASE FOR AUTO INDUSTRY

Paris LE NOUVEL ECONOMISTE in French 19 Dec 83 pp 32-33

[Article by Henri Gibier: "Auto Industry: The Talbot Test"]

[Text] Talbot, symbol of the "misfires" in the recovery of the French automobile industry, and a company which is totting up rising sales along with appalling losses, is paralyzed by labor problems.

Another labor conflict for Peugeot--declining market shares for Renault--appalling losses for the one and the other (a minimum 3 billion francs for each one)--what, then, has become of the French automobile industry's "new lease on life" ? After 1982, its most dismal year in the postwar period, it is going to finish 1983 in worse shape than it was in when the year began. Sales, which are going to reach unexpected heights (some 2 million vehicles) this year, and export markets, which are recovering rapidly, are once more not weighing in very strongly in the face of the chronic reopening of the labor sore.

## Urgency

The unending Talbot conflict at Poissy, which keeps springing back to life along with the changing seasons, is a symbol of that bogging down of the industry. It was at the beginning of summer that Peugeot's management chose to make public the biggest set of layoffs in its history, 2,905 of them concentrated at the "sensitive" Poissy location. Six months later, the CGT and the CFDT, taking advantage of the short space of time during which the plant's 16,000 wage-earners were not subject to their monthly therapy of technical unemployment, launched a frontal attack on the Peugeot group's "labor plan." Within a period of a few hours on the evening of 7 December, the CGT phoned its 300 "assembly line representatives," calling them together to come stop the machinery, while Mr Andre Sainjon, national leader of the CGT metalworkers, asked for an urgent meeting with the prime minister, Mr Pierre Mauroy.



This initiative immediately makes one wonder whether there was concerted offensive action by the PCF and the CGT against the government, above and beyond the automobile industry in regard to industrial policy. In fact, the move was within a few days of coinciding with Mr Georges Marchais' "outburst" criticizing the industry minister's attitude in the SKF fight--the Val-de-Marne metalworking company occupied for several weeks by CGT workers--, and with an initial "action day" at Renault on the subject of the fight against "economy wages." While on 12 December Employment Minister Jack Ralite, definitely in the mood for emotional adjectives, denounced Peugeot's "unfeeling layoffs" in more of a militant than a ministerial tone. However, the precise circumstances in which the Talbot conflict broke out last week make a repetition of the spring strikes quite unlikely.

### Inevitable

The handle of the detonator was not pushed down by the CGT, the sovereign power at Poissy with its 20 sections and 4,000 members, but by the CFDT which is very much in the minority. After a meeting at the Les Yvelines Departmental Labor Headquarters, the plant's CFDT members had asserted that management considered the Poissy layoffs to be "inevitable." The effect of notification would be disastrous for wage-earners who at the beginning of December had gone over 350 hours of annual technical unemployment, which meant a drop from 70 to 50 percent of their normal wages. So the wait-and-see attitude of the 14,000 workers was suddenly transformed into what a local CFDT leader called a "gigantic shot of the blues." This forced the CGT strategists to follow along with the movement although they had been operating on the basis of moderation since fall, counting on their good relations with the employment minister to try and thwart the layoffs.

In fact, the "rejectionist front" won solid government support. Furthermore, even in recast form the Talbot "labor plan" did not persuade Mr Pierre Beregovoy, who on Wednesday afternoon turned into "Mr Good Offices," receiving in turn Mr Jacques Calvet, chairman of Automobiles Peugeot, and Mr Sainjon. When the CGT leader came out, apparently calmed down, he limited himself to saying, "The strike action will continue in responsible forms." At the cost of this corridor bargaining effort, everyone was still hoping to come out with a compromise solution which would give a guarantee to the CGT without making the management lose face. In addition to industry measures, which satisfy Mr Laurent Fabius more than his "labor" colleagues, and the inevitable early retirements, the principal arrangement planned by the management accompanying the 2,905 dismissals boils down for the time being to 16,000 copies of a letter being sent to potential employers in the area. Up to now, barely 300 are said to have listed for a job.

However, they protest on Avenue de la Grande-Armee at the group's offices, "we have never made so many efforts for Talbot and for Poissy", and they categorically reject Mr Michel Leclerc's amazing offer to buy 40,000 Talbots: "Legally impossible; we are tied by contract to our dealers."

#### Atmosphere

In response to CGT accusations the staff headquarters retorts that " it is the CGT and its representative, Mrs Nora Trehel, who are going to effectively kill off the trademark--not us." The Poissy plant is undergoing rapid change. Some 49 million francs have just been spent for production of the 104Z and 205's. Mr Calvet has promised to commit 1.2 billion francs by 1985 which should make Poissy, transformed into a multi-vehicle production site, into one of Automobiles Peugeot's three major centers along with Sochaux and Mulhouse.

Provided that at Poissy, just like elsewhere, labor's blocking actions which poison the atmosphere in the entire domestic auto industry are overcome. The problem of surplus labor is not peculiar to Talbot. In the spring Citroen estimated its excess at 1,500 in the Paris region alone. At Renault the "cuts" needed are estimated at 2-3 percent of the workforce per year. While waiting for an initial "sign" from the government, everyone is resorting to partial unemployment, a costly stopgap.

Thus, the wage issue is coming up again at a time of difficult circumstances, and managements complain about the lack of valid representatives to negotiate with. The breakdown of the CSL [Confederation of Free Unions] at Peugeot is strangely matched by the electoral weakening of the CGT at Renault. Management's negotiators are afraid of finding themselves faced with odd coalitions, between "new FO's" [Workers Force] alternating "Poujadism" and "pointillism" and a retreating CFTD tempted to overbid its hand.

Under these circumstances one understands the interest all automobile industry management has in the Poissy outcome. In that charming town in the western part of the Paris area, which went from PC to RPR in the last municipal election, it is the country's future which is at stake. Here is a revealing episode: it took 3 long years for government authorities to produce 1 billion francs via the new FIM (Industrial Modernization Fund) to help the French automobile industry for getting a fresh start, but this good news has arrived at the height of the attack of paralysis at Poissy.

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## SHIPPING, SHIPBUILDING SUFFER DEPRESSED MARKETS

## Strikes Hamper Shipping Industry

Paris LE NOUVEL ECONOMISTE in French 19 Dec 83 pp 40-45

[Article by Claude Bunodiére and Philippe Gazier: "The SOS of the French Ports"]

[Text] French ports are too expensive and too often on strike. Their technical excellence does not redeem their reputation. And the customers flee to more clement havens.

Roubaix importing Australian wool via Zeebrugge and Flushing--powdered milk from Normandy exported to South America via Belgium--American corn shipped to processing plants in Nord Department via Rotterdam and Ghent . . . What is the point of being the third largest maritime power in the world if that world doesn't like French ports any more?

Wool, corn, and milk aren't specially allergic to French piers, but it is a fact that they prefer to tie up elsewhere. So, in 1982 13 million tons of traffic got away from Metropolitan France's ports--9 percent of the tonnage and 13 percent of the value of their "normal" traffic. This has worked to the great advantage of Rotterdam and Antwerp, which are swiping about nine tenths of the traffic in question. Thus, Belgian ports are said to "handle" 58 percent of Dunkirk's potential traffic.

## Stake

The secretary of state for maritime affairs has cried out an alert. "We have to sell French ports," Mr Guy Lengagne was proclaiming the other week. "Sixty percent of our foreign trade passes through them; that is something major at stake."

There was an appeal to the public-spiritedness of those who have been "nationalized;" an official representative was named; and in short, it was general quarters at Place Fontenoy.

And in the meantime, what was happening on the docks? On 8 and 9 December the longshoremen went on strike once again--to defend not the ports but their own wages and workforce numbers. This was the culmination of an escalation begun in mid October: total discontinuance of overtime, whether a ship was "finished" or not; surprise work stoppages at Nantes and La Rochelle; "long weekends" at Marseilles; 24-hour strikes at Dunkirk, Boulogne, and Ajaccio; "national struggle day" on 23 November; etc. Trapped between the longshoremen and the crane operators, the Scandutch shipping company has just left Marseilles for Barcelona "for the time being." Shipping firms are vigorously protesting to Mr Lengagne: "The increased number of work stoppages is totally disrupting ship turnaround."

Is all this routine? Indeed it is, but disturbingly so. By the end of December the American shipping company US Lines is to choose the future European port of call for its new "round-the-world" service, which will be starting up in 1985 with 12 giant-size container ships. And that service with its 300,000 container "boxes" could increase Le Havre's container traffic by 50 percent. At last report Le Havre's chances were getting slimmer by the minute.

Routine disruption has unfortunate consequences, for the state of health of French ports has been deteriorating for several years. While Le Havre was close to 90 million tons barely 3 years ago, now it is reduced to 58 million--down 3.3 percent in 1980, down 6.2 percent in 1981, down 9.5 percent in 1982. What is to blame? Excessive rates? Longshoremen who are too frequently on strike? The ports themselves, to be blamed for lethargy? Insufficiently assertive shipowners? Manufacturers who don't force their customers to go through French ports? The atomization of the countless port occupations--shipping agents, transport agents, forwarding agents, handlers, etc.--too dispersed to make up an aggressive commercial force de frappe? The slack in business, business being an almost irresistible attractive force? Or the government, overwhelmed by its 3,000 kilometers of coastline and 50-odd trading ports of which only the six biggest--known as "autonomous"--come under direct government supervision?

One thing is certain. "Technically speaking, French ports are good," chorus their users. No waiting. Nothing to criticize the pilots or tugs for. Productivity at Le Havre has become a selling point: on 21 June containers were handled there at a record rate of 40 per hour! Right nearby, Antifer can accomodate 500,000-ton supertankers and provide exceptional safety

conditions. With Dunkirk's new "fast" port dug out 15 kilometers west of the old one, it offers docks accessible to ships round the clock, without any more concern about locks and tides. With Fos and Port-Saint-Louis--more than 60 kilometers from the old port of Marseilles--the latter city can rank itself Europe's number two port. Rouen, Nantes and Bordeaux are spreading piers and raised connecting strips all along their estuaries in order to get access to ships. Gigantic gantries; 10-ton cranes; special-purpose piers for oil, coal, timber, fruit, or containers; gangways for car ferries; silos for automated packing and onboard loading; refrigerated dock warehouses; and so on--the government, chambers of commerce, and local communities have not expended 24 billion francs since 1966 in idle fashion.

### Protection

But a tool is only made useful by the skill with which it is used. People in the shipping business have reason for providing more protection for the confidentiality of cost comparisons than is provided for military secrets. Cost is right where the shoe pinches: French ports are expensive.

One shipping company did a study of its transit costs for a regularly scheduled 20,000-ton cargo, offloading 400 tons and onloading 1,000 tons of general cargo goods. The results were as follows: in spring 1983 costs amounted to 100 francs in Antwerp and nearly that much in Rotterdam and Hamburg, but they had to pay 136 francs in Dunkirk, and 197 francs in Le Havre and Marseilles--twice as much. Another computation, this one based solely on charges by container terminal administrators for container handling (filling and onloading), was as follows: the figures climbed from 470-500 francs in Zeebrugge or Antwerp to 550 francs in Dunkirk and almost that much in Hamburg and Bremen, to 650 francs in Le Havre, to 800 francs in Fos . . . to 1,300 francs in Marseille-Est--the highest. "At that cost I don't get by," groans Mr Nicodeme Pellas, Marseilles shipping agent; "I am 25 to 30 percent more expensive than Leghorn or Barcelona!" And the customer flees. If he can.

Woe to him who is geographically "trapped" by his investment. Dunkirk's top customer Usinor (providing one-third of Dunkirk's income), with its steelworks on the water, receives more than 90 percent of its ore imports at that port. Of course that is worth something to Dunkirk: it costs Usinor 360,000 francs in port charges to berth a 100,000-ton ore carrier there, compared to 265,000 francs at Fos, 257,000 francs at Le Havre, and 153,000 francs at Rotterdam. From the port administrator on down to rank-and-file longshoremen, the entire port system is being blamed. Cost comparisons pertaining to the ship itself (port charges, piloting and tugs, etc.) are indeed nothing to be ashamed about. "For oil, Marseilles is the cheapest port along with Rotterdam," asserts Marseilles port chairman Roger Heuillet. For standard-size ships,



Le Havre (at 42,065 francs), Nantes (at 51,800 francs), and Dunkirk (at 52,900 francs) maintain a satisfactory position vis-a-vis Rotterdam (at 50,950 francs) and do better than Antwerp (at 81,755 francs).

### Inscrutability

For goods it's another matter. Faced with the inscrutability of prices and "cargo rates," firms such as Renault, PSA, Pechiney, etc. chose long ago to become carriers "in order to have a foot in the business."

Terminology and actual practice get all confused; who is going to pay for the handling? Is the price understood as "on board" (then it will be the customer who pays) or "pierside" (that will be the shipping company who pays)? Will they make it "shipping-ready" delivery (half and half)? How is one to figure it out at Antwerp, where goods are called "ready to onload" on the "blue stone"--a symbolic line and local invention which can be so loosely interpreted as to pass under the docksheds, much to the customer's advantage--? How is one to guess that for Asia Dunkirk quotes "pierside" and Marseilles quotes "shipping-ready," but for the United States East Coast it is the other way round? For each port and each route and each product you have to ask. "Pity the PME's [small and medium-sized businesses]," says one transport agent ironically.

### Standard Practices

Identical prices for distances varying as much as threefold--cost differences for outward and return journeys--surcharges imposed on the basis of a rise in fuel oil or the dollar--loyalty discounts--a whole set of rules inscrutable to the uninitiated. They are set by shipping companies within a framework of some 360 "conferences" which govern more than three-quarters of scheduled seagoing transportation. Why couldn't the system be readily harmonized? Based on the "service rendered," as would be normal?

French shipping companies are already being subjected to the demands of developing countries, and they really see red when some "Leclerc" in transshipment offloads and swipes the best of the merchandise, and slashes prices. As did the subsidiary of an Australian group, Trans Fret Line, which did not hesitate to give 30 percent discounts in order to prevail in the market. Two years later it had become number one on the route . . . and it rejoined the conference.

"Instead of fighting each other to attract outsiders, port officials would do better to operate in solidarity with the French shipping companies," declares Mr Pierre de Demandolx-Dedons, general representative of the Shippers' Central Committee. "Do we want to be on routes to get goods, yes or no? It's a matter of competitiveness," retorts Le Havre's commercial director, Mr Charles Knellwolf.



Rivals in private, shipping companies and port directors find themselves united against the common "enemy": the longshoremen.

"As soon as labor's share in costs increases, we lose customers," observes a Le Havre shipping agent. "In containers things are all right. In traditional general cargo we are barely in the running any more."

To be sure, wages are high and they have risen rapidly. Last year's average earnings for longshoremen for 14.8 actual work days per month were 97,700 francs in the autonomous ports and 90,000 francs in the secondary ports. In Le Havre, 56.7 percent of the longshoremen earn 90,000 francs or more today; the figure was only 3.9 percent in 1978. But Antwerp longshoremen are as well paid as French ones, and, moreover, changes in the work justify this. The era of "sweat merchants" and their battalions of "brawn" is over. When a big handling firm is "carrying the weight" of 200 to 300 million francs of investment, and the longshoremen are running gear worth 3 million francs and doing freight data processing, there is nothing surprising about their being paid technicians. The disparity in competitiveness is elsewhere: in the number of longshoremen and in work methods.

#### Livelihood

The longshoremen are aware that the fall in trade and, most of all, mechanization are slowly but surely eroding their livelihood, and they keep their eyes fixed on workforce numbers. Haven't "roll-on roll-off" ships brought cargo handling rates from 150 to 1,000 tons/hour, and container ships made it possible to go up as far as 1,500 tons/hour? Isn't standard cargo-handling becoming automated at a rapid pace? But the make-up of a handling crew isn't being changed: it totals 25 men. To handle sacks and boxes and other "general cargo" at Le Havre, 8 longshoremen onboard the ship and 4 on land are still required, not counting the two crew leaders, the foreman, the vehicle drivers and the crane operators supplied by the port. And the crew of 4 "checkers," since custom requires 1 chief, 1 assistant, 1 clerk on board and 1 other clerk on land. A Marseilles transport agent emphasizes that "here [in Marseilles] the local union agreements require 11 workers to handle containers. Six are enough in Le Havre, 5 in Dunkirk, and 3 in Rotterdam. Measure the extent of union of strength from that!"

And also how invisible management is. "The corporate body of longshoremen is the only important case in France in which there are no employers confronting the workers," says a high-ranking official knowledgeable in maritime affairs, in summary fashion. The longshoremen are standing firmly on the 1947 law that gives them the monopoly of labor on the docks, which are without any fixed employers because of the tradition of day-to-day hiring, and the longshoremen recognize and respect only one single "permanent" authority: the union.

The system of cargo handling as practised abroad is not intrinsically perverse. The sporadic nature of the work does not prevent Rotterdam from experiencing very few strike days--this year only one: 26 May. Although, on the other hand, the Antwerp longshoremen, who are permanent salaried employees attached to businesses, did go on strike for 9 days in September. But in France the cocktail of sporadic work mixed with labor monopoly under the control of the CGT proves to be explosive. It transforms the ports into formidable union strongholds.

### Heredity

In fact, there isn't anything that is better organized than the CGT monopoly on the docks. In actual practice, being a longshoreman, and belonging to the CGT as well, is passed down from father to son. In Dunkirk there are two waiting lists: the "A" list with priority for family members, and the "B" list for other people. In Marseilles heredity is quantified: being a longshoreman's son puts you 15 points ahead, being a son-in-law--5 points, living in the commune--10 points, being married--2 points, having a diploma--3 to 5 points. With these assets in hand, who, in order to get the famous "G" card--the longshoreman's occupational card--, wouldn't take a free CGT card along with it, if only to be left in "peace"? The result is that the CGT picks up 98 percent of the votes in longshoreman elections.

The CGT is in a strong position because of its troops as like-minded as they are disciplined, and it proves itself on the battlefield: between the 14 percent increase in real wages and the direct move to a 35-hour week, wage costs were close to an extra 30 percent last year for Dunkirk company managers.

"Unprecedented gains, which didn't even bring us peace in labor relations," thunders one of those managers. The longshoremen brandish the strike weapon in rhythm with wage negotiations, twice a year.

It is amazing to observe that the only efforts made to try and weaken the CGT's omnipotence are made by other unions. In Sete, FO [Workers Force] broke the system in 1976 by instituting "automatic turn-taking": from that time on getting along well with the foreman wasn't necessary in order to get hired, and so getting a card from the foreman's union wasn't necessary. However, the Sete example has not been followed elsewhere.

As for employers who hire longshoremen directly, they seem to accomodate themselves quite well to a system the rules of which they know. In order to get around the obstacle presented by the sporadic nature of the work, Le Havre handlers long ago "took on" some 800 out of the 3,100 longshoremen, and their Marseilles colleagues have done the same with 600 out of that city's 2,400. De facto permanent employees and paid as such, these workforces provide

reliable relief, recruiting "their" men and not the men who in Marseilles are called the "shadocks" or "broken arms."

Nor is there any question of opening up the rules of the game and thereby taking the risk of the union escalating the situation. A few months ago in Marseilles, the employers unhesitatingly signed an agreement with the CGT to de facto exclude the CFDT from longshoreman elections; the CFDT was going to have offered a complete list of 26 names even though it has only 100 members there. After the CFDT protested and won on appeal, in October 1982 it went to the Court of Final Appeal . . . because of an appeal of their victory by the Marseilles shipping bosses!

"It is in everyone's short-term interest to go easy on the union, and everyone is urging the handlers to yield," explains a transport agent. "The shipowner who, at rates of 45,000 francs per day for a standard-size ship and 170,000 francs for a large container ship, does not want to see his ship held up on any account. Me, so I can get my goods off. The port director, a civil engineer appointed by the government, who is anxious about his career and therefore anxious about keeping peace in labor relations. There are no weak links in this system of organized irresponsibility. The longshoremen win every time."

Never mind the consequences, the waste, and the external image. For 6 months a brand new coal pier in Dunkirk originally intended for Usinor, 1,250 meters long and representing 352 million francs of investment, remains hopelessly deserted: 1,800 CGT longshoremen and 1,000 port workers, CGT as well, are disputing the right to move coal from the ship to the storage depot. This dispute is over two gantries, a conveyor belt, a bucketwheel shovel, and a weighing tower: 3 crews for 11 work stations, 33 jobs in all. The shipping bosses are paying the port 60,000 francs per day in useless rent and remaining silent, paralyzed by the memory of the 1977 Dunkirk longshoremen's strike--51 days! The port director is careful not to take sides. The secretary of state for maritime affairs, called in to arbitrate at the beginning of summer, has given up and chosen instead to refer the case to a local mediator.

### Negotiation

There are reasons for management's caution. However little they may know about shutting up, all manner of things do get negotiated--hirings, schedules, nightwork and weekend work at double wages, reduction in worktime, make-up of work crews. There are as many union "barons" and styles as there are ports. In Fos a strike is always total work stoppage; in Rouen they prefer "go-slow" striking; in Le Havre strikes can be "cut short" or ignored. The "struggle against unemployment" (see Table 2) varies from one port to another. Not a

single early retiree is replaced in Dunkirk, where "Roger" (Mr Gouvard) lays down the law and never forgets about the competition from Belgian ports. But in Fos, Mr Edouard Bergenaud, communist deputy mayor of Port-Saint-Louis and a "maximalist," has demanded, and received, 120 extra longshoreman cards. The shipowners haven't said a word, not unhappy about a little unemployment "relaxing the labor climate." The director of the port of Marseilles had the power to stand in the way of those cards. He didn't do so. Since then, the unemployment rate in Fos has jumped up, from 9 to 29 percent!

There is a similar diversity among labor demands as to how far the work "extends." The Fos longshoremen demand the work of going to "dump out" the containers as far away as the industrial zones, even if the latter are tens of kilometers away from the "200 meters" of the maritime public domain reserved for the longshoremen. On the other hand, in Le Havre Mr Andre Nolant has given orders, and the longshoremen agreed to them 2 years ago, that in order to reduce operating costs they wouldn't work inside a new automated bagging silo for grain. "The Le Havre longshoremen will never reopen the question of a benefit they have already gained," explains someone in the business from that port. "But they will not refuse to adapt in order to get new traffic." As to defining the logic underlying the disparities, it is difficult to put questions to the major party involved--the CGT. Monopoly leaves no choice: it would seem one has to promise not to meet with any trade unionist who has allegiance other than to the CGT. In Fos they even have to promise it in writing!

### Indifference

It remains to be seen if the longshoremen would have the same control of the the game without the objective "help" of general indifference. For 20 years French officials have been condemning the fact of traffic routing itself away from France's ports, and those ports are still being penalized in terms of inland transport servicing. When the expressway from Paris to Normandy gets within 15 kilometers of the port of Le Havre it turns, heading straight for Deauville. The government authorities just gave a boost to the barge container system on the Lower Seine, but the large-scale river network still terminates in a dead end at Compiègne and Montereau. The only complete river infrastructure is that of the Moselle, provided with a network of canals, which flows out through the Benelux countries!

The VAT--the TRO (compulsory road rate system), which doesn't have a Belgian or Dutch counterpart--"long zone permits" which are allocated more or less according to quotas--the whole system of rules and regulations goes out of its way to encourage road carriers to go to foreign ports. As for the "free zones" Marseilles and Le Havre dream about, there's no point in fostering too many illusions on that score: Customs has no intention of letting any bit of its power go.

## Making a Plea

At the time when France's Ninth Plan investment is being decided on, the ports are going to have a difficult time pleading their case. All the more so since a number of recently completed projects, such as Le Havre-Antifer, Verdon's outer harbor, and the big ship repair docks at Marseilles and Brest seem excessive today.

But boldness also pays off. If the government hadn't made the huge gamble in 1976 of putting the LNG tanker terminal coveted by Le Havre in at Montoir, that port would not have deepened its channel, ELF [Gasoline and Lubricants Company of France] would not have modernized its Donges refinery right after, and EDF [French Electric Company] would not have gambled on its thermal power plant. Also the billion francs of investment made in Nantes over the space of 5 years has brought that city a "Japanese-style" growth rate.

To stop investing will be all the more difficult since activity is continuing abroad: Zeebrugge decided to invest 6.7 billion francs between 1978 and 1985; Antwerp has invested 4.7 billion since 1978; Hamburg is "moving ahead" at an annual rate of 300 million francs; Rotterdam is accumulating big projects . . . Competition will be even rougher tomorrow than it is today. Since the technical excellence of French ports is their foremost asset, can they afford the luxury of not remaining in the running?

[Table 1] The Contest Among the European "Big Boys"  
(traffic figures in millions of tons)

<u>Port</u>	<u>1982 Total Traffic</u>	<u>% Change From 1981 to 1982</u>	<u>1982 "General Cargo" Traffic</u>	<u>% Change From 1981 to 1982</u>
Rotterdam	247	- 1.3	33	+ 1.4
Marseilles	91.5	- 5.6	9.9	- 1.2
Antwerp	85	+ 6.5	31	-
Hamburg	62	+ 0.9	18.5	- 6.6
Le Havre	57	-20.6	8.3	- 9.1
Genoa	43.7	- 7.3	5.8	-10.7
London	41.6	- 3.5	4.8	- 4
Dunkirk	32.9	-12.5	5.1	- 6.1

Oil and bulk cargoes are the major part of the tonnage, but particularly desired cargo--"general" cargo--is the value: in Le Havre a ton of crude oil pays 5 to 6 francs, a ton of ore 20 francs, and a ton of "groceries" 1,000 francs, not to mention the jobs the latter entails.



There is a clear contrast presented. At the end of September 1983 the big ports in the north were falling off in hydrocarbons and bulk cargoes but continuing to increase in general cargo; Hamburg was dropping 20 percent overall but was gaining 6.8 percent in general cargo. At that same point in France the decline was universal--down 5.8 percent nationally on average (down 5 percent in Le Havre, down 6.8 percent in Marseilles, down 13 percent in Dunkirk). The decline in general cargo varied from 4.7 percent in Marseilles to 20 percent in Rouen, the only port spared from decline in that respect being Dunkirk (up 2.4 percent).

[Table 2] Unemployment on the Docks

Port	% Unemployment Among Longshoremen		Actual	Change in
	<u>1978</u>	<u>1982</u>	Workforce <u>On 1 APR 83</u>	Actual Work- force: 31 DEC 78 <u>to 1 APR 83</u>
Autonomous Ports:				
Marseille-Est	11	13	2,129	-642
Marseille-Fos	11	25	928	+184
Le Havre	18	22	2,994	-669
Rouen	18	-	1,767	-367
Dunkirk	14	19	1,537	-288
Nantes/Saint-Nazaire	46	28	425	- 37
Bordeaux-Le Verdon	37	33	401	-270
Principal Non-Autonomous Ports:				
Boulogne	27	27	364	- 52
Dieppe	34	60	340	-175
La Rochelle	29	32	227	- 33
Sete	41	27	212	-119
Brest	9	9	99	+ 1
Bayonne	45	37	55	- 3

The workforce decline, broadly speaking the result of the early retirement program set in motion in April 1982 (2,141 departures, partially offset by 907 hirings), has not been enough to offset the drop in traffic and the gains in productivity. On 1 April the actual workforce numbered 12,659, compared to 15,000 in 1978 and more than 20,000 10 years ago. However, the average level of unemployment went from 20 percent in 1978 to 23 percent in 1982.



At the end of June unemployment reached record heights in Fos (29 percent), Nantes (41 percent) and Boulogne (43 percent). Renewed for one year, the new early retirement agreement now prohibits any granting of longshoreman cards in ports if unemployment is over 30 percent.

If longshoremen don't find work vacancies they are well taken care of: the National Guaranty Fund, funded exclusively by management contributions, assures them a minimum of 150.10 francs per day up to a limit of 150 days per year.

### Shipyards Face Heavy Competition

Paris LE NOUVEL ECONOMISTE in French 19 Dec 83 pp 46-47

[Article by J. Gl. and Ph. G.: "Shipbuilding: Shipyards in Distress"]

[Text] "As government money floods in, the employment situation deteriorates and circumstances for the future in the shipyards get worse." This observation was not made by an unrepentant liberal but by L'HUMANITE. Barring a miracle, the 19,000 workers in the 5 major French shipyards will soon be reduced to twiddling their thumbs: on 1 October outstanding orders had fallen to 532,000 gross registered tons, the equivalent of two supertankers. However, no one dares ask the real question: is it responsible to continue with an economic activity up against the strong winds of an international competition in which France has only 2.5 percent of the world market, and which costs the taxpayers 10,000 francs per month per person employed?

Everything is following the usual pattern, now quite a standard one, of economic sectors in trouble. On the workforce side people are stirring into action. At La Seyne, one of the hardest hit yards, the unions have been blocking sea trials for the "Fairsky," a liner built for the American line Sitmar Cruises Inc., since 25 November. Also in that same locale near Toulon, where Georges Marchais was intending to go this week, more than 4,000 people marched through the streets.

On the side of the government authorities, Secretary of State for Maritime Affairs Guy Lengagne asserts that "the government does not want to let the shipyards die out" and is asking their managers to "show more dynamism." Meanwhile the government, after having budgeted 650 million francs in its finance bill, has had to grant a special 725 million franc advance in order to forestall bankruptcy for Chantiers du Nord et de la Mediterranee [Northern and Mediterranean Yards], headed by Mr Jacques Dollois, owner of the Dunkirk,

La Seyne and La Ciotat facilities. On the other hand, the government has asked the company's managers to submit to it a recovery plan by 15 January 1984-- which is already worrying the workforce at the Brest dockyard who are rallying against possible transfer of military vessel construction to private yards.

### Fighting

At all events, management and workforces of French shipyards are up in arms in fairly concerted fashion against Mr Tristan Vieljeux's decision. The owner of the leading private shipping company, he has in fact just ordered four log carriers in Yugoslavia. His logic is that he will pay 135 million francs for each of those ships, which would have cost him three times as much in France in the absence of government intervention. This price difference illustrates the savage fighting that is engaged in by all the world's shipyards in order to get hold of the few orders. The situation began with the 34 percent drop from 1973 to 1982 in international oil traffic, which brought the share of hydrocarbons in seaborne commerce down from 62 percent to 49 percent. This decline occurred when shipping companies had just been placing huge orders for ships. Hence, as deliveries proceeded downwards, there was enormous overcapacity and curbing of new orders: world orders have fallen from 130 million to 24 million tons (TJBP) [gross registered tons] since 1974.

The shipbuilding scene is coming out of this drastically changed. Japan has attempted to fall back in orderly fashion: its share of world orders has been reduced from 46 percent to 28 percent in 10 years; its capacity has gone from 16 million to 10 million tons since 1980. South Korea has asserted itself. European shipyards have tried to salvage what they can, with government subsidies making up for the handicap of costs which are sometimes three times the costs of their rivals, the latter being subsidized themselves. Yards have closed down and workforce numbers have shrunk from 207,000 to 119,000 since 1975, which is not enough. In Italy the eight state enterprises in the shipbuilding sector are going to be merged into a single one.

In France we have been slow to grapple with the issue. Since 1951 French shipbuilding has stayed alive with strong government support, theoretically intended to offset the industry's excess costs compared with its foreign competitors. This is an arrangement which has encouraged the industry to behave somewhat like steel: each time there is rough going it appeals for more public monies. To be sure, the number of yards has been reduced: who still remembers that there were shipyards in Port-de-Boue, in Le Trait, and in Bordeaux? But since the mid sixties there has been a stop to mergers: Saint-Nazaire, Dunkirk, La Ciotat, La Seyne, and Nantes--tied into rival industrial combines--proclaimed their viability and maintained that their demise would cause irreparable injury to local economic stability.

## Poles

Soon after the Left came in it was going to force regrouping around two poles: Nantes and Saint-Nazaire around Alsthom-Atlantique, in spite of reluctance on the part of the General Electricity Company's subsidiary; and Dunkirk, La Ciotat, and La Seyne within Chantiers du Nord et de la Mediterranee, led by Schneider. The idea was to succeed in achieving greater cooperation and proceed to rationalize.

However, the extent of trouble in the industry was broadly speaking underestimated. At the present time Korean bids are being made at prices which are sometimes only 30 percent of French costs. This is another way of saying that government assistance would have to be doubled in order to maintain operational shipbuilding capability. Since there is no question of doing that, shipbuilding capability will have to be cut in half.

[Table 1] The World Drowning in Overcapacity: Changes in World Shipping (figures are indices based on 1973=100)

<u>Category</u>	<u>1978</u>	<u>1982</u>
Traffic in Petroleum Products	105	68
Tanker Fleet	151	140
Traffic in Other Goods	123	139
Non-Tanker Fleet	136	155

In 1982 world oil traffic totalled 6.9 billion ton-miles and traffic in bulk and "general" cargo totalled 7.2 billion ton-miles. Calculated in deadweight tons, world fleet capacity at the end of that year was 328.5 million tons for tankers and 318.8 million tons for other vessels.

[Table 2] France: The Taxpayer Is Paying (figures in francs)

<u>Government Assistance</u>	<u>1974</u>	<u>1978</u>	<u>1983</u>
Total	33,648,000,000	44,721,000,000	109,090,000,000
Per Shipbuilding wage-Earner <sup>1</sup>	1,285	1,933	5,806
Per TJBP <sup>2</sup> Built	784	1,042	2,160 <sup>3</sup>

1. Actually, half of the assistance is redistributed within the French industrial network.
2. Gross registered ton.
3. Including what is budgeted, although part of that is to be expended in 1984.

9631

CSO: 3519/152

## NEGATIVE POPULAR ALLIANCE VIEW OF ECONOMY

Madrid ABC in Spanish 26 Jan 84 p 11

[Text] The public criticism by Popular Alliance (AP) of the official version of the macroeconomic results of 1983 is doing a great deal to fuel the expectations generated by that party's Congress. Today the economy is at the heart of any political debate that is sensitive to the demands of reality.

Popular Alliance's Economic Committee has drawn up a report whose figures are undoubtedly more in tune with reality, because they agree with the statistics compiled by agencies and research centers that are immune to government influence.

According to this committee, the gross domestic product has not grown by 2.1 percent, as the government claims, but only by 1.5 percent, even including the growth attributed to the installation of the General Motors plant. The slip from the better figure cited by the government is obvious when one looks at the general decline that continues to be apparent in economic activity.

On the other hand, the foreign deficit figures, looking at individual categories or the overall total, also exceed the government's conservative estimates, in the opinion of the experts. If the official figures were correct, the peseta would not be depreciating so sharply and steadily, not only in relation to the dollar, but also with respect to the currencies of all the OECD nations. For this very reason, it cannot be asserted that inflation has been put under control, even at the high rate of 12 percent. That percentage is already being pushed higher because of the inflation psychology that is driving up prices in response to the 1984 tax increase.

Finally, unemployment continues to climb, despite the artificial employment of tens of thousands of people in public works jobs. It seems certain that the number of unemployed has risen by more than 250,000 in the past year, although the Labor Ministry limits the figure to 190,000. If investment is not stimulated--and it has not been yet--new jobs cannot be created.

The Popular Alliance Economic Committee's report reveals nothing new to the well-informed. But by challenging the government's optimistic figures and stressing the economic failure of its first year in office, the report

represents a timely effort to provide valuable criticism, as it reveals statistics that are not sufficiently well known to the public.

Since it drew up its electoral platform, Popular Alliance has defended the inevitable need to cut public spending as a first step toward containing the deficit, moderating taxes and cutting inflation. The Socialist policy, far from cutting public spending, allows--indeed, sometimes even encourages--it to climb. Thus, the economic crisis, growing deeper by the day, seems to be no nearer to a solution.

8926

CS0: 3548/172

## CHAMBERS OF COMMERCE HEAD ON 1984 ECONOMIC PLANNING

Madrid ABC in Spanish 30 Jan 84 p 55

[Commentary by Jose Maria Figueras Bassols, president of the Higher Council of Chambers of Commerce, Industry and Navigation of Spain]

[Text] When I stated last fall that the government's Four-Year Plan was the last chance Spain had before throwing itself at the feet of the International Monetary Fund, there were plenty of comments to the effect that I had been too pessimistic. Now I am not the only one who dares to mention in public the name of the "institution of last resort" headquartered in Washington; even the president of the government declared recently that he was not willing to allow the Fund to make the adjustment that the country itself should make.

To be sure, 1984 has not had a promising beginning. The suspension of payments by the last truly autonomous Spanish television manufacturer was followed by a similar action by a major firm supplying capital equipment to the electric sector, with multinational capital. The two companies had different reasons for declaring bankruptcy, but there is a common denominator: the inability to meet their financial costs. Given that the monetary restrictions announced for this fiscal year are to be especially severe, it would be no surprise--I hope I am wrong--if other businesses of equal importance were to suffer the same misfortune, not to mention the plethora of small and medium businesses that will continue to line up in court with their books in hand.

#### Opportunities

I do not want these words to be interpreted as a reflection of secular pessimism in Spain. In many areas, the government's economic policy is the only one possible, and furthermore, the abrupt change in productive structures is giving rise to business opportunities and is providing employment for well-trained people. I would simply like to point out that as long as old habits remain and people continue to resort to mechanisms that have proven their absolute inefficacy, the Spanish economy will not be in a position to be assured of sharing in the recovery that the Western economies are experiencing.

As I write these words, the Inter-Confederation Agreement has not yet been signed, and of course it is already known that the Workers Commissions will



"wage war on their own." The management organizations and the labor unions agree that it would be better not to have any agreement at all this year than to sign a pact that cannot be implemented.

Nonetheless, an agreement would be beneficial for productivity, and would contribute to the achievement of the government's inflation-cutting goal. On the other hand, contract-by-contract bargaining would notably intensify labor conflicts in the private sector, even if the greatest social strife takes place in those sectors which are structurally recessive, generally dominated by the public sector.

Thus, if there is to be any hope for 1984, the Agreement must be signed.

Along other lines, the monetary policy designed by the government for this fiscal year is causing a great deal of concern among businessmen. This reaction is not because they do not understand that a restrictive monetary policy is essential to correct basic imbalances--such as an inflation rate substantially higher than that of our neighbors in the Organization of Economic Cooperation and Development (OECD), which would be disastrous, and which, it should be stressed, has not happened in 1983--in our current account deficit; but rather because with the present increases in public spending, the financial resources available to the private sector are extremely scarce, and what resources there are are not used because they cost too much. The consequence is a total distortion of the financial system, since the yields obtained by banks and credit unions depend increasingly on the financing they provide to the public sector. The ultimate effect is more government participation in economic activity, which is completely undesirable.

In any case, the worst thing that could happen to the Spanish economy would be for the adjustment process begun in 1983 to be interrupted in 1984, for whatever reason. Not advancing, stopping for a moment, is the same as regressing. In this regard, the investments scheduled for the sectors that have a future, most notably energy and electronics, must take place as soon as possible, without lowering our guard in sectors with greater potential for creating jobs, such as construction.

#### Vital Opening

But it would be absurd to conclude these brief words on the prospects of the Spanish economy without mentioning what, in my opinion, is the to be or not to be of its possible inclusion among the post-industrial societies, a greater opening up to the foreign market. In 1984, the questions that, incredibly enough, still remain unanswered with regard to our membership in the European Economic Community, must be cleared up once and for all. Contrary to what some people still think, more aggression on the part of our exports will serve as an incentive to our neighbors, not an obstacle, in the path toward adhesion.

# Estimate of Macroeconomic Picture, 1983

	Current Pesetas*	1983 Change from 1982 (%)		
		Real	Monetary	Prices
GDP at market prices	23.2316	2.1	14.1	11.7
Private domestic consumption	16.6416	13.4		12.1
Public consumption	2.6690	2.5	13.9	11.1
Gross capital formation	4.2201	-2.5	9.8	12.5
Fixed capital	4.1467	-2.5	9.7	12.5
in construction	2.8044	-2.0	10.1	12.3
other fixed capital	1.3423	-3.5	9.0	13.0
Change in inventories	0.0734	-2.0	11.6	13.8
Domestic demand	23.3323	0.7	12.8	12.1
Exports (goods and services)	4.7219	9.4	30.1	18.9
Imports (goods and services)	4.8226	1.3	22.2	20.7
Foreign balance	-0.1007			
GDP at factor costs	21.9430	2.1	13.5	11.1
Primary sector	1.3918	2.0	11.2	9.0
Secondary sector	7.2965	2.3	12.7	10.2
Industry	5.9167	3.3	13.7	10.0
Construction	1.3798	-2.0	8.9	11.1
Tertiary Sector	13.2547	2.0	14.1	11.9

\* In billions

Source: Study Service of Bank of Bilbao, own estimate.

8926

CSO: 3548/177

## RESTRICTIONS, DEBT SERVICING MAKE FINANCING DIFFICULT

Madrid ABC in Spanish 30 Jan 84 pp 56-7

[Article by Amancio Fernandez]

[Text] This year it will be more difficult to finance Spanish business. A restrictive monetary policy and the need to finance the growing public deficit leave scant resources for the private sector. Whereas the public sector will have 40.9 percent more funds than in 1983, the private sector will receive an increase of just 5 percent. This, along with businesses' increased dependence on foreign financing, is the principal cause for concern among businessmen, and will be a key topic of discussion at the assembly of 2,500 businessmen convened by the Spanish Confederation of Business Organizations (CEOE).

The financial problems plaguing business are particularly severe at a time when monetary policy is one of the tools used most by the government in its economic strategy. The ceiling imposed on the growth of liquid assets, the increasing loss of funds by financial institutions with the higher minimum cash ratios, and the issuance of Treasury Bills and other forms of public debt are having a direct impact on the financing of businesses.

All of this leads to a grab for funds in the credit system, with the resulting decline in the financing available to the private sector. At the same time, interest rates are affected, as is the level of business activity and investment.

While the public sector needs larger and larger amounts of financing each year, the private sector has seen a decline in the growth rate of its share in the available monetary stock. Current spending by the Public Administrations has gone up 5.7 percent, while the gross domestic product rose by only 3.7 percent. This increase in public spending has continued on into the 1984 budgets, reaching twice the growth rate of national production. Moreover, the public sector has received more financing each year, with an increase of 32.9 percent between 1981 and 1982, 36.4 percent in 1983 and 40.9 percent for this year. Meanwhile, the financing made available to the private sector by the credit system, without taking into account the capital market (notes and bonds) or financing from outside Spain, grew by 14.8 percent between 1981 and 1982, rose by a mere 11.1 percent last year, and is expected to climb just 5.2 percent this year.

The additional 900 billion pesetas the private sector could have for financing in 1984 is clearly not enough to maintain business activity. The immediate consequences will be suspensions of payments, increasingly tight financial straits for many firms, and a slump in investment that will do nothing for economic reactivation. The discounting of commercial paper, the basis of financing for many companies, particularly small and medium ones, is now becoming difficult. Financial institutions can do little in the face of minimum cash ratios that raise the amount captive resources they must keep on hand.

The 10.5 percent increase in available financial resources for the entire system this year represents 2.3 trillion pesetas, and is influenced by the government's monetary program as a basis for fighting inflation. Of that amount, the public sector will need 1.4 trillion pesetas, so the private sector will have only 5.2 percent more money than in 1983. Business sources say that this growth should be double that figure, closer to 11 percent, if private economic activity is to be maintained.

A recent CEOE survey on businesses' external assets, financial costs and investment leads to a series of conclusions that indicate an exacerbation of the problem discussed above. There appears to be a high degree of dependence on foreign financing, a greater reliance on credit among small and medium businesses (and at a shorter term and higher cost), and a decrease in investment aimed at new activities.

A total of 1,884 businesses, a return rate of 30 percent, responded to the questionnaire that was sent out last October and November. The form asked questions about the state of financing in Spanish businesses.

The external assets used by businesses continued to grow during the third quarter of 1983, which reveals a great deal of dependence on financing and a progressive decapitalization. These external assets amount to 60 percent of the businesses' internal assets, and grew by 1.7 percent compared to the first quarter of the year. Another issue discussed in the survey is the changes made in behavior over the past 2 years. In response to the steady rise in financing costs, Spanish businesses had been reducing the proportion of their indebtedness. But now they are increasing the ratio of external to internal assets; that is, they are increasing their demand for credit despite the new rises in costs.

This phenomenon can be explained by the fear that the continued drain of funds from the financial system to finance the public deficit and a restrictive monetary policy will cut back even further the resources available to the private sector.

The dependence on external assets is still on the rise, and varies according to the size of the business. Businesses with up to 30 employees have 29.3 percent external assets, while firms with more than 500 workers register ratios of 110 percent external assets.

As for the cost of financing, it is greater than that obtained in the previous survey. The growth was greater toward the end of the year.

Most of the firms (66.2 percent) continue to make their purchases on a delayed payment plan, although this percentage dropped by 6.4 points compared to the first quarter of 1983. This percentage tends to decline as business size decreases. The volume of delayed-payment purchases was 52.6 percent, a drop of nearly 4 points.

Credit was primarily used for technical improvements and equipment renovation, and less for new activities. Of the firms surveyed, 47.6 percent had not made any investment during the third quarter, a percentage similar to that of the beginning of the year. Investment has been greatest in the large companies, with only 6.1 percent reporting no investment, as opposed to 73 percent among the small businesses.

Total average investment in productive equipment was 61,600 pesetas per employee, 43 percent less than the comparable figure for the first quarter. This figure rises with the size of the business. In addition, the reduction of inventories has continued in the industrial sector as well as in services.

The proportion of businesses where no new jobs were created by this investment was no less than 80 percent, which means that many of those that invested in expanding their productive capacity did not open up new jobs.

For all activities as a whole, the average number of jobs created was 3.9 for every 1,000 existing jobs, while the number of jobs abolished was 1.9 per 1,000, yielding a balance of 2 per 1,000 in favor of jobs created. This figure is much lower than that of the first quarter. The industrial sector created more employment than the services sector, at an average cost of 15.8 million pesetas per job, as opposed to 13.2 million in the first quarter of 1983. In services, the cost per job created was 12.8 million, in industry 17.6 million. In small firms the figure is smaller (10.6 million), compared to 72.1 million in firms with more than 500 employees.

Monetary and Financial Trends  
(In Billions of Pesetas)

	1981	1982	Change 81/82	%	1983	Change 81/82	%	1984	Change 81/82	%
Total liability in credit system	17.1653	19.4216	2.2563	13.3	21.610	2.1884	11.3	23.8249	2.2149	10.3
Liquid assets (1)	14.0707	16.0158	1.9451	13.8	18.000	1.9840	12.4	19.8900	1.8900	10.5
Bonds (2)	0.3626	0.5389	0.1763	48.6	0.760	0.2211	41.0	0.8284	0.0684	9.0
Other creditors (3)	0.7865	0.7871	0.0006	--	0.750	0.0371	-4.7	0.8175	0.0775	9.0
Capital	1.9455	2.0798	0.1343	6.9	2.100	0.0202	1.0	2.2890	0.1890	9.0
External sector, net	-0.7305	-0.4621	0.2684	--	-0.240	0.2221	--	-0.1400	0.1000	--
Total Net Domestic Assets	16.4348	18.9595	2.5247	15.4	21.370	2.4105	12.7	23.6849	2.3149	10.8

	1981	1982	Change 81/82	%	1982	Change 81/82	%	1984	Change 81/82	%
Public Sec- tor, Net	1.9430	2.5829	0.6399	32.9	3.522	0.9400	36.4	4.9620	1.4400	40.9
Private Sector	13.1324	15.0758	1.9434	14.8	16.748	1.6720	11.1	17.6229	0.8749	5.2
Others, Net	1.3594	1.3008	-.0586	--	1.100	-.2008	--	1.1000	0.0	--

Notes:

1. Cash in the public's hands and deposits in financial institutions
2. Certificates of Time Deposit issued by banks and held by the public, plus mortgage bonds plus Bills of Official Credit.
3. Includes: savings by emigrants, special creditors (cashier's checks from the Bank of Spain; certified checks, traveler's checks, and others) and bills and notes payable.

Financing Costs  
(Third Quarter 1983)

	Average Annual Interest Rate
Private free credit from Banks and Savings & Loans:	
Terms of up to 1 year: Credit	18.7%
Terms of up to 1 year: Commercial discount	17.2%
Terms of more than 1 year but less than 3 years	17.1%
Terms of 3 years or more	17.2%
Private credit charged to required cash ratio of Banks and Savings & Loans	11.4%
Official credit	11.8%

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CS0: 3548/177



## OVERVIEW OF 1983 FOREIGN DEBT REPAYMENT

Istanbul DUNYA in Turkish 17 Jan 84 p 3

/Text/ Turkey paid \$2.979 billion towards its foreign debt during the first ten months of 1983 (January-October). This figure represents 66.6 percent of the \$4.474 billion in exports realized during the same period.

Based on statistics, the above figure for foreign debt repayment marks an increase of \$626.7 million or 27 percent over the figure for the same period in 1982. The \$2.352 billion paid in January-October 1982 represented 53.7 percent of Turkey's exports of \$4.377 billion for that period.

The debt repayment figure for the January-October 1983 period can be broken down as follows: \$2.034 billion was applied towards principal and \$946.6 million was interest. As for the breakdown of the 1982 figure, \$1,233,900,000 went towards principal and \$1.118 billion towards interest. Thus, payment on principal for the 1983 period increased by \$800.1 million or 65 percent, while payment on interest decreased \$173.3 million or 16 percent.

According to calculations, \$1.321 billion of the debt repayment for the 1983 period stemmed from state debts, including \$981.6 million principal and \$339.1 million interest. A total of \$251.2 million was paid to the IMF, including \$135.9 million principal and \$115.3 million interest. Long and short-term debts to banks accounted for \$801.7 million, including \$353.5 million principal and \$448.2 million interest. Debts in connection with Foreign Exchange Accounts took up \$373.4 million, including \$359.5 million and \$13.9 million interest.

On the other hand credits received during the same period in 1983 totalled \$1.886 billion. Included in this were \$317.1 million in IMF credit, \$366.3 million for CTLD's (Convertible Turkish Lira Deposits) and \$866.2 million for Foreign Exchange Accounts.

Foreign credits received during the same period in 1982 totalled \$1.433 billion.

## COMMODITY PRODUCERS WORRIED OVER IMPORT POLICY

Istanbul TERCUMAN in Turkish 17 Jan 84 p 4

[Article by Cengiz Yurdanur]

[Text] Producers of edible oils and milk products maintain that imports will have adverse effects on domestic industry. Producers point out that customs duties and charges will not be able to prevent European surplus butter, and particularly low-quality, old milk powder from entering the country with low prices. This might create a situation whereby domestic plants may not be able to market their wares, thus reducing the amount of milk to be processed, and effecting a blow to animal husbandry in the country.

According to the new import regime, certain food items could be freely imported alongside durable consumer goods. Butter, margarine, sunflower oil, cheese and milk powder are among the items to be imported.

Some producers maintain that high prices of imported products will keep demand limited, leaving the domestic market largely unaffected.

#### Huge Stocks Awaiting in the EEC

It is said that in the EEC countries the self-sufficiency ratio in milk products has gone over 120 percent and stocks of milk powder, butter and cheese have reached a five-year high. As a result Turkey is said to have become a very attractive market for the liquidation of these stocks. According to collected data, countries belonging to the community hold 1,016,628 tons of milk powder and 877,490 tons of butter in stocks, as of year's end.

#### 'Beware of Stale Products!'

Riza Kibar, the managing director of Pinar Sut, maintained that these stocks exhibit large quality differentials. He said:

The butters have been stored in warehouses for a long time and are stale. Milk powders are mostly 'feed grade', that is, earmarked for animal feed. These low quality milk powders sell at below \$600/ton. The price of the

stale butters are less than \$1400/ton. They are prepared to make special discounts to liquidate these stocks. In the event of their importation, the consumer will be victimized with regards to quality and the domestic producer will not be able to market his produce.

'Home-grown, Still Preferable!'

Attila Midillili, assistant managing director of Unilever, said:

Importation took place during 1978 when there was a shortage of edible oils. However, margarines imported from Holland were later sold to soapmakers through the agency of GIMA. The consumer does not have an inclination to use oils other than his usual brands. It is hardly possible for the imported margarines to come cheaper than the domestic ones. The government's decision to liberalise is intended for price formation. Our firm is not frightened by competition.

Arif Melih, spokesman for Alemdag butter company asserted that unless there is a wide price margin between imported and domestic produce, middle classes would prefer their brand, adding that "the buyer is sentimental. He would prefer the domestic brand to the European. I don't think we would be unduly affected."

Cahit Selen, the owner of Sultan butter company said:

I don't suppose that imported butter would sell below TL 1500 in the domestic market. That means it would be sold at pricey delicatessen stores. Initially people would buy out of curiosity, then the market would settle. In other words, there won't be a run on these goods. And another thing, does European butter have expiry dates on their labels? We are worried that people might be fed stale butter.

Milkpowder

Regarding the importation of milk products, the most apprehensive were the producers of milkpowder. Following Pinar Sut, Suter Sanayii also maintained that imports will deal a substantial blow to domestic industry.

Firms which use milkpowder in their production line, on the other hand, say that quality is as important as price. So that if quality is good they might be interested in importing.

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CSO: 3554/130

## ANALYSIS OF NEW EXPORT INCENTIVE MEASURES

Istanbul DUNYA in Turkish 17 Jan 84 p 5

[Article by Ertan Engin, director general of EXSA: "New Export Incentive Measures and Practices"]

[Text] As you know, exports represent a vital issue which is and ought to be focused upon in Turkey, as in every country of the world.

A country's economic prosperity is directly related to its rate of development and even its prestige in the eyes of other countries. The big problem of all national economies lies in achieving a favorable balance of payments or trying to improve the balance by increasing exports.

The most important principle in trade is the fact that trade is a two-way street. This point is especially worth bearing in mind in increasing our volume of trade. For exports to be accepted as a continuity, business must be conducted according to the conditions of the day. For export activities to be successful, it is essential that the necessary administrative procedures be carried out in every organization.

Optimum use of functions like budgeting, communications, organization, planning and supervision will ensure continuity, development and stability of exports.

Of the above functions, planning in particular has two aspects. First, there is the planning that export companies may make. Secondly, there is the ability of export organizations to adopt to the planning of our government, which is supporting exports in the fullest sense and which we believe will continue to do so.

This is why it is vitally important that the innovations our government has introduced and will be introducing in its export incentives conform to the conditions of the day, and why it is so important that the changes it will be making for the better or worse be put into effect and given sufficient time.

EXSA, which is responsible for carrying out the export activities of the Sabanci Holding Group in particular, is experienced in exporting the industrial goods which the group produces. As you know, exporting industrial goods is an activity requiring long-term effort and demanding continuity. Our organizations have to adopt to markets that are difficult to enter but, for various reasons, very easy to exit. In view of this fact, it is inevitable to have longer-term sales contracts and sales on industrial goods compared to other goods. Obtaining continuity of conditions called for in incentive measures and practices is a helpful factor in being able to succeed in making long-term sales contracts.

Once again, I would like to touch on the importance of the planning factor here. We are all aware that sources of credit are limited. We cannot deny the sacrifices our government has made in letting us exporters use these limited sources. However, if credit terms are shortened and interest rates increased under the new decisions it has adopted, this is naturally going to create problems for us --at least for awhile-- in implementing plans and programs previously set up.

I believe our officials may consider it just for us to demand that true exporters be treated differently from those who dip into the business because they see exports attractive. For example, it would help expected growth if an exporter who fulfills three previous contracts within their terms were given preferential treatment over others, and if the terms and amounts of his credits were tied to different parameters.

With sources of credit being so limited and Pakdemir saying that terms are going to be cut from 12 to 6 months when the new incentive measures are announced, the financing and sales policies which all of us exporters have made are going to be affected. We respect the decisions of our government as requirements of its Money and Credit policy, but it would be tremendously useful if it were to introduce some additional measures that would at least lighten this burden. Of course, since the Export Incentives Communique has yet to be issued, we have no way of knowing whether our questions and demands are answered in it. Still, there are certain points that I would like to mention in this connection. As I said before, sources of credit are limited. I believe that it might help resolve this problem to some extent if Tax Rebates were paid to exporters by commercial banks under regulation of the Foreign Exchange Sales Boards. As you know, we have heard that Tax Rebates have really been cut back.

On the other hand, the problem of shortened credit terms could be resolved if we were allowed to pay off our T.L. debt at the end of the term specified in the credit documents, rather than making no payments in the first half and then making payments in the second half, as was done previously. Our government may, of



course decide to do this. Perhaps only exporters who can fulfill their export commitments within the term and gain the right to apply for new credits should be allowed to avail themselves of this opportunity. Having exchange rate guarantees applied to prefinancing of industrial exports, as was done previously, would help exports find sources of credit.

The Turkish Money Protection Law has been reformed as a result of decisions that have indeed been needed for years. This reform has provided us exporters with significant amenities.

As you know, Turkey's highest level of bilateral trade in 1983 was with Iran. However, foreign exchange income from exports to Iran is tagged RCD dollars and collected on the basis of exchange rates fixed by the Central Bank Office. It has nothing to do with the exchange rate determined by the Treasury and Foreign Trade Advisory Office. We would like our government to do something about this before we suffer any further losses. Furthermore, the rate fixed by the Central Bank and recorded on the day of export is used for calculating Tax Rebate tables. It may be unfair for us to demand that the exchange rate on the day of payment be used as a criterion instead, but one possible incentive would be for us to be able to use the rate set by the Treasury and Foreign Trade Advisory Office as the criterion. Of course, it would be essentially acceptable and valid to determine the basic exchange rate of other convertible currencies just by figuring their rate against the U.S. dollar.

Because EXSA is an exporters' capital corporation and surpassed the \$50 million in exports a few years ago, it has been given business opportunities through the new export regime. We feel that this is an interesting incentive.

By the same token, we have been granted an opportunity to be able to engage in Transit Trade and Re-export activities, which the export regulation issued on 28 December 1983 made it easier for exporters to do. These are great opportunities for us to be able to move ahead.

Indeed, the export regime and the 29 December regulation have provided us amenities and opportunities we had not been accustomed to in other periods. Moreover, our government has been taking a closer look at local industry protectionism, which exists in every country in the world. It has been taking the necessary steps to reinforce this in Turkey.

It is my belief that our government is going to be extremely careful in protecting our local industries as far as imports are concerned. It will be introducing the necessary dumping and anti-dumping measures to counter dumping attempts by other countries that could threaten local industry.



As you know, in the past Turkey was accused of dumping cotton yarn on EC countries, and the decisions taken by those countries made it difficult for Turkey to continue exporting.

As I have already said, exports are a continuity and everyone involved has to accept the obligation to conform to the conditions of the day. In order for all of us exporters to be able to take more trusted steps in markets we have served and are prepared to serve, it is essential that the export insurance which has been approved go into effect as soon as possible.

It is my belief that some or perhaps all of the points which I have been able to single out here as problems may be resolved through the Export Incentive Measures, which have been endorsed by the Council of Ministers but which our government has yet to announce owing to its well-known sensitivity on such matters.

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CSO: 3554/131

## LONG-TERM BENEFITS OF INVESTMENT TAX REDUCTION

Istanbul DUNYA in Turkish 17 Jan 84 pp 1,7

[Text] New arrangements in tax legislation are introduced by Bill 2970 and the draft proposal of the Ministry of Finance and Customs, which are expected to have impact on the capital market.

The provisional clause no. 10 of the Bill states that if revenues accruing from the sale of shares and immovables (of full liability corporations) are debited as capital then such revenue would be exempted from corporation tax. It is expected that this new arrangement will lead to the sale of immovables in the short run, particularly by the banks and insurance companies. In the long run, however, under the new legislation, industrial and commercial companies (with an eroded capital base) are also expected to resort to such an option.

Clause no. 4 of the new legislation refers to a Council of Ministers decision which allows deduction of up to 100 percent in corporate tax. This decision applies to those sectors designated as special in the development plans and annual programs and to investments in regions designated as having developmental priority. It is expected that this decision will lead to the spread of property-ownership and an increase in the volume of transactions in the capital market.

Clause no. 5 of Bill 2970 (which introduces changes in tax legislation) refers to the status of companies (of national origin) which are in bad shape due to a Council of Ministers decision. This decision allows the reduction of tax stoppage on revenues and incomes of these (limited liability) companies as low as nil, the tax stoppage being either separately in terms of each company or in terms of each sphere of activity. The clause makes the point that the shares of companies in such a predicament may be considered for acquisition by foreign capital.

The Sale of Immovables with Tax Exemption Might Stimulate Bond-issues

Ertan Ozdemir, a financial consultant, pointed out that those financial, industrial and commercial companies experiencing problems in auto-financing may resort to the practice of debiting to capital those revenues which accrue

from the sales of immovables subject to tax exemption. Ozdemir further elaborated that, "however I don't expect industrial and commercial firms to engage in such selling, soon. Yet, one should bear in mind that at a time when external financing is getting costlier, resorting to such a practice by firms experiencing problems in financing would enable them to increase their capital, hence making it possible to float a proportionate amount of bond issues."

### Addition of Capital

Bill 1970 (effective since 1 January 1984) makes it possible to be exempted from taxation on revenues which accrue through the disposal of shares and real estate provided that such revenues are employed in the increase of capital, in which case 100 percent of such revenues in 1984 and 80 percent in 1985 will be exempted from taxation. The proposed rearrangement apart from lending continuity to the system, opens up the possibility of converting real estate and stocks into operating capital, subject to 10 percent taxation.

When the new system goes into effect, the financing requirements of companies will be met by sales of real estate and stocks. The system might also lead to important changes in the property structure of existing organisations. Until now, due to high tax rates the selling of shares and real estate was problematic. By lowering the tax rate to 10 percent it is expected that the capital market shall receive a shot in the arm, and the structure of industrial ownership shall undergo rapid transformation.

Vural Arikan, the minister of finance and customs, pointed out that this new arrangement will make it possible to apply lower tax rates when shares and real estate are sold by treating them as 'capital gain'. Arikan thought this practice would "strengthen the companies." Arikan maintained that "the capital market will be strengthened, too." He also made mention of changes in the structure of ownership which may be due for consideration. Under the new system, corporations would "find it easier to secure their needs for operating capital." According to Arikan, the new system makes a positive attempt to transfer those savings which have accumulated abroad, into the country. He reiterated that the new legislation concerning tax exemptions has come into force covering the years 1984 and 1985. (The legislation, that is, offering exemption from taxes in cases where revenue accruing from sales of real estate and shares are used to bolster the capital position of the company).

### Special Implementation for 1984 and 1985

Meanwhile, it is expected that sales of shares and real estate by companies deriving benefit from the new arrangement (that is, the clause put into effect by Bill 2970 exempting the sale of real estate and shares from taxation) would be speeded up. In particular, it is expected that there would be a rapid liquidation of assets by banks which have been forced to increase their nominal capital and which have had limits placed upon the amount of shares and real estate they may own, as a result of the new banking regulations. Selling of this kind by the banks is expected to produce increased activity in related markets. A provisional clause added to the Corporation Tax Law

allows tax exemption in cases where revenues accruing from sales of shares and real estate are used to bolster the capital position of the company. In terms of new legislation, such procedures involving increased capital are to be treated not as dividends. The legislation also stipulates that in cases where revenues initially used to bolster capital are somehow withdrawn from operation sometime later (until the end of 1990) or where such operations cease altogether, the said revenues would be treated for tax purposes as revenue accrued during that particular year.

12466

CSO: 3554/130

## ELECTRICITY PRODUCTION, CONSUMPTION IN 1983

Zurich NEUE ZUERCHER ZEITUNG in German 21 Jan 84 p 17

[Text] Conditions for production have taken a turn for the worse during the middle of the year. The first half of the year was characterized by above normal water supplies, which reached peak values, especially during the first part of the year. Beginning in the middle of July drought conditions set in, which reached extreme values during November and December. The Danube power plants, for instance, could at times produce only 600 Megawatts, or 35 percent of their capacity. Some balance was achieved by utilization of thermal power plants which at times produced up to 800 MW, by power exchange with some regional suppliers, and by imports from Eastern Europe, among them 400 MW from Poland, 100 MW from Czechoslovakia, and 90 MW from Hungary. In this way the water situation during the beginning of September provided for a good utilization of the capacity (550 MW) of the new high voltage direct current transmission facility for electric power interchange with Eastern Europe. In addition the imported power from Poland appears to be "price-wise interesting" according to the Electric Power Association [Verbundgesellschaft = Austrian Electro Industry AG]. Despite the drought there did not occur any power shortages. Also no shortages are expected by the Association during the winter months, assuming normal conditions. Under unfavorable conditions storage power plants have to be put into operation and short term support agreements have to be made with regional power plants and with foreign suppliers.

## Decreased Growth of Demand

Austrian electricity demand has grown only slightly less during the past year than in 1982. Public electric power plants have delivered 33,965 GWh of power country wide, which is 1.3 percent more than was delivered in the previous year (1982 1.7 percent). Increases during the beginning of the year were far below average, but above average increases occurred during the spring and the last two months of the past year. The Austrian power economy based calculations on an annual growth rate of 3.2 percent for the annually revised, ten year, coordinated power plant construction program, compared with 3.7 to 4.1 percent which formed the basis in 1982. This estimate is slightly above that of 2.5 percent by the Institute for Economic Research. The Association considers its own estimate "rather too low than too high," especially since it considers ways to save electric power as appearing to be exhausted and it is of the opinion that electric power will increasingly become a substitute for oil.

## Controversial Danube Power Plant

Progress could be shown by the Electric Power Association in connection with the Hainburg power plant project, located below Vienna near the Czechoslovakian border, which was severely attacked quite openly by environmentalists, and which was treated like a hot potato by most politicians. The Ministry of Agriculture, as the highest authority on water rights, declared the project shortly before the Christmas holidays a priority hydraulic construction project. Under normal circumstances this should facilitate accelerated settlement of necessary real estate expropriations and compensation proceedings. It nevertheless is at this time not very probable that power plant construction can begin in April as planned. Resistance still seems to increase. Experts and expert opinions against the project are being offered from all possible sides and revised reports and site plans are brought into play by, among others, the "red" and "black" politicians of the City of Vienna and by the opposition People's Party, who all seem to have the purpose to delay the project, if possible, for years.

The government stands alone with a--not very decisive sounding--"yes," only supported by the Austrian Trade Union Congress (OGB) and the business associations. It has to make a choice between a construction decision, which clearly is unpopular among the youth and the intellectuals, and between additional employment problems--some few thousand jobs--, this time at construction firms engaged in river power plant construction and at suppliers of electrical equipment. In order that construction companies can avoid lay-offs after completion of the Griefenstein plant above Vienna, the Electric Power Association has provided financial advances which will make it possible for the construction companies to employ available labor in maintenance of mechanical equipment. Even this has been labelled by some of the media as a snub of the power plant opponents.

7994

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## FINLAND, USSR AGREE ON GUIDELINES FOR NATURAL GAS

Helsinki HELSINGIN SANOMAT in Finnish 14 Jan 84 p 28

/Article by Kari Kiuru: "Bases for Price Fixing of Natural Gas Agreed Upon: Neste Demands 450 Million Marks Support for Gas Pipeline"/

/Text/ Neste and the Soviet natural gas supplier V/O Sojuzgasexport reached an agreement for the basis of natural gas price fixing. On the other hand, the price questions themselves still remained on the table.

A condition of the price-fixing settlement is, however, that Neste receives from the state a promise for a 450 million mark grant for the construction of the gas pipeline. The entire price of the pipeline is 900 million marks, of which Neste's share would be 270 million marks and the Soviet Union's share 180 million marks.

The rise of the dollar exchange rate, in particular, made it difficult to pin down the actual price level, it was reported from Neste on Friday.

Natural gas will next be discussed at the end of January in Moscow, where the Neste leadership is traveling to negotiate the Soviet Union's oil deliveries.

At the price negotiations which began on Tuesday an attempt was made to reach a decision which both sides would be able to accept. However, a final solution was not reached, it was said in the Neste communique.

A stumbling block was specifically the sharp rise of the dollar exchange rate, which influences with all its weight the purchase price of natural gas, but whose influence, for the time being, has not been transmitted with corresponding weight to the prices of domestic energy. The domestic price level has, on the contrary, dropped, it is stated in the communique.

In other words, as the dollar exchange rate rises, Neste finds itself paying for the natural gas it buys, as well as for oil, a higher and higher price, which, for the time being at least, has not been transferred to consumer prices.

At the natural gas seminar held in Kouvola on Monday Neste's representatives estimated that a 10-15 percent reduction in the price of gas would make it fairly competitive with other fuels.

Soviet natural gas has flowed into southeastern Finland for 10 years. Now it is a matter of extending the pipeline to Tampere and the Helsinki region.

A total decision on the introduction of natural gas into the new area is being made as a joint decision of the price negotiations and the construction of the extension of the gas pipeline. A final decision will be locked up after the pipeline contractor has given his official bid and everyone is clear on the financing conditions of the undertaking, it is related from Neste.

Neste is continuing the pipeline's planning and routing work according to the original timetable.

From Neste, Managing Director Jaakko Ihmuotila, Assistant Managing Director Kai Hietarinta and the Director responsible for natural-gas matters Ulf Schmidt participated in the negotiations conducted in Helsinki.

Sojuzgasexport's Chief Director J. V. Baranovski led the Soviet delegation.

#### Price Determination Difficult

The natural gas bargaining differs clearly from the marketing negotiations of other energy forms. The final price may be open to the very end just like the price's tie-in with future expenditure changes.

At the same time the buyers of gas are still in a state of competition with each other. The fact is, of the current consumers scarcely anyone is buying natural gas at the same price.

At the beginning of this year there was talk that the price of natural gas would be tied in with coal, for example. Then there would have been at least some kind of meter in the development of prices. Now coal has begun to behave on the world markets just as unpredictably as the other raw materials, and so the tie-in of prices to coal is not necessarily advantageous.

Rather the price of oil and the real drop which is expected in it might be a better enticement. Then the meter would be crude oil, because experience has bitterly shown that the prices of temporary quantities fluctuate on the international markets considerably, too. Finland has periodically received large surcharges for finished oil products brought in from the Soviet Union, because the prices are tied in with the Rotterdam international exchange rates.

In recent times the Soviet Union has shown considerable eagerness for the price fixing of natural gas in one way or another. The generally accepted starting point both at Neste and in the Soviet Union is that the price of natural gas ought to drop.

#### Big Price Accordion

The price of natural gas is fixed according to the British thermal unit MBTU. The prices fluctuate from 2½ to 6 dollars per million thermal units. However, the price of natural gas has clearly been higher than coal, for example.

Last year natural gas as a fuel of power stations cost 82 marks per megawatt-hour, while the corresponding price of coal was only 37 marks. The matter was no so clear, however, in practice.

Natural gas is sold to large-scale buyers at a clearly cheaper price than to small-scale consumers. At new sites the investments in natural gas are calculated to be about 40 percent cheaper than the construction of a corresponding coal plant.

Taking into consideration investment estimates, Neste calculates the real price difference to be about 15 percent in the Tampere case, for example. In order to make the matter even more complicated, buyers are also offered a price tiein with some other energy raw material. Thus Neste could have its own price tiein in purchases and Neste's customer another.

Neste is pleased with natural gas, however, because the alternatives which the company offers are few. For example, a billion cubic meters of additional natural gas would replace about 1.3 million tons of coal. The amount is about a third of Finland's annual coal consumption and it is certain that Neste would not get for itself a corresponding increase in coal imports.

#### Soviet Union Wants Additional Transactions

The Soviet Union is also willing to increase supplies of natural gas, because the country is able to deliver gas more easily than oil. Now, for example, Europe's socialist countries find themselves buying crude oil partly from Western markets, because the Soviet Union cannot supply enough oil.

Natural gas also plays a considerable role for the Soviet Union in foreign trade. The Soviet Union has 30 percent of the world trade, and the country is rising past the United States to become the largest producer of natural gas.

Last year natural gas imports from the Soviet Union remained at 700 million cubic units, while the amount at its peak in 1979 was nearly a billion cubic units. In the original agreements which go back 10 years provision was made for the import of 2 billion cubic units.

The Soviet suppliers vouch that there is indeed plenty of gas, although the demand at load peaks may be 15 times compared to quiet times. A bypass pipeline has been completed north of Leningrad, so that the Leningrad area no longer directly influences Finland's gas supply.

In the present natural gas pipeline network there is enough gas for months for small-scale consumers, if, in the event of a breakoff, the large-scale consumers make use of the reserve systems. According to the hopeful estimates presented at Kouvola the use of natural gas could rise to 3 billion cubic units a year.

12327

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## STATE OIL FIRM EXPANDING INTO COAL TRADE AS GROWTH SLOWS

Helsinki HELSINGIN SANOMAT in Finnish 25 Jan 84 p 29

/Article by Renny Jokelin: "Neste Sought Its Intense Growth From Abroad" /

/Text/ Neste, Finland's largest enterprise by far, last year sought its growth almost entirely from abroad. Without the powerful growth of crude-oil intermediation or so-called trading business Neste would have stayed in place. After trading came the chemical industry, which the company spurred on with numerous enterprise purchases.

Oil exports and intermediation on the international markets almost tripled in 1983. Altogether the value of the trading business was 6.3 billion marks, while the year before last it reached 2.2 billion.

Neste's exports together with Pekema and Stymer rose all told to 3.6 billion, or about 1 billion larger than in 1982.

Spurred on by these, the Neste concern reached quite new figures in its trade activity. Turnover was 23.2 billion Finnish marks, which shows an increase of about 6 billion marks a year. The rate is believed to have raised Neste a few notches, when it is listed as one of 1983's largest European firms.

Neste's growth is all the more remarkable when the sale of crude oil in Finland has fallen continually. Last year in Finland altogether 10.4 million tons of oil and oil products were consumed, which is seven percent smaller than in 1982. The most severe drop was in fuel oils. In recent years oil has had to give way to electric heating, among other things, and, through it, to nuclear power.

Neste's Managing Director Jaakko Ihamuotila says that last year Neste was distinctly better than the year before that. In 1982 Neste was squeezed by exceptional, 400-million-mark inventory losses. According to Ihamuotila the investments which increased productivity at oil refineries and factories improved the year's returns.

Neste is continuing the intense investment tempo. Last year 660 million marks were used up in investments, in 1982 over 860 million. The investments were made almost entirely with loan capital, and Ihamuotila believes the investment tempo will remain at a high level, "if we can just put together foreign financing." According to what one hears, there are more than enough ideas for squandering money.

In 1983 Neste acquired one plastics firm from Finland and four from Sweden; among these the big Unifos transaction still remained without the blessing of officials.

Deliveries of natural gas continued to decline, and they came to 673 million cubic units. According to contracts Neste would have the possibility of importing half again as much gas from the Soviet Union.

/Question/ How big was Neste's actual profit margin in 1983, Managing Director Ihamuotila?

/Answer/ "Actual" profit margin is just as indefinite a concept as company-shown profit margin. Returns were better than in 1982, when we showed a profit margin of 44.5 million marks.

/Question/ Neste began the coal trading business a year ago. How has it been working out, and does it seem to be sensible?

/Answer/ It's still much too early to evaluate the success of the coal business. It's gotten off the ground, but a boom both at home and abroad is earmarked for the latter half of the decade.

/Question/ Neste has gone around buying firms and setting up offices abroad. Is this expansion for expansion's sake and spending of money because there's a lot of it?

/Answer/ Neste is not branching out with no purpose in mind. Annual investments of about 600-800 million are being made with loan money.

/Question/ How long can Neste continue such an investment tempo?

/Answer/ It has to continue so that the company can diversify.

/Question/ When will the Unifos matter be decided? Couldn't the officials' timetable have been predicted better?

/Answer/ The transaction is in the hands of Sweden's officials. The schedule was calculated because usually a decision takes 4-6 months. There's still time.

/Question/ Oil consumption has declined rapidly in Finland. Will we find ourselves saying to the Soviet Union in the next few years: thanks, no more?

/Answer/ Oil consumption has fallen off in a few years in its energy contents by about 3,000 megawatts or 3 oil tons. The same trend is underway on the export markets, too, so that it is not certain how long we can set off the reduction in domestic consumption with export successes.

/Question/ Should Neste then drop the Soviet imports in the course of a year or two?



/Answer/ I wouldn't talk about exact times. It's a question of Finland's foreign trade in its entirety.

/Question/ Neste's top leadership is on its way to Saudi Arabia in February. Why?

/Answer/ We're going to Saudi Arabia and elsewhere in the Near East to look after OPEC contacts and promote Neste's goals.

/Question/ The dollar is rising in price just as persistently as ever. When is Neste going to ask for consumer price increases?

/Answer/ No date has been set. On the energy markets there is fierce competition, which forces one to be satisfied with low increases. Neste will continue to show moderation.

/Question/ Some people want to divide up the liquor monopoly Alko. Should the Neste monopoly also be broken up, and would it be able to manage with just the oil business?

/Answer/ Neste is not a monopoly. The company is well integrated and in this sense it is not reasonable to break it up.

12327

CSO: 3617/77



## BRIEFS

FISHING AGREEMENT WITH EC--On Friday the new Swedish fishing agreement with EC was ready. After coming close to breaking down, the negotiations gained new momentum on Thursday and Friday and now everything has been straightened out. All that is left is the formal approval of the Swedish government and the EC Council of Ministers. The agreement gives Swedish fishermen the right to catch 700 tons of herring in the North Sea along with 170 tons of cod, 400 tons of haddock and 30 tons of whiting. In addition the two Swedish fishing companies that specialize in ling are permitted to catch 300 tons in EC waters off the Shetland Islands. ""This is a direct increase compared to 1983 when the Bohusland ling companies were allowed a maximum catch of 200 tons," said Gunnar Horstadius of the Swedish EC delegation in Brussels. The Swedish concession in return for the fishing agreement involves EC fishing for salmon in the Baltic, where permission has been granted to catch 20 tons. The quota was 35 tons in 1983. [Text] [Stockholm SVENSKA DAGBLADET in Swedish 28 Jan 84 p 32] 6578

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